

PROCEEDINGS

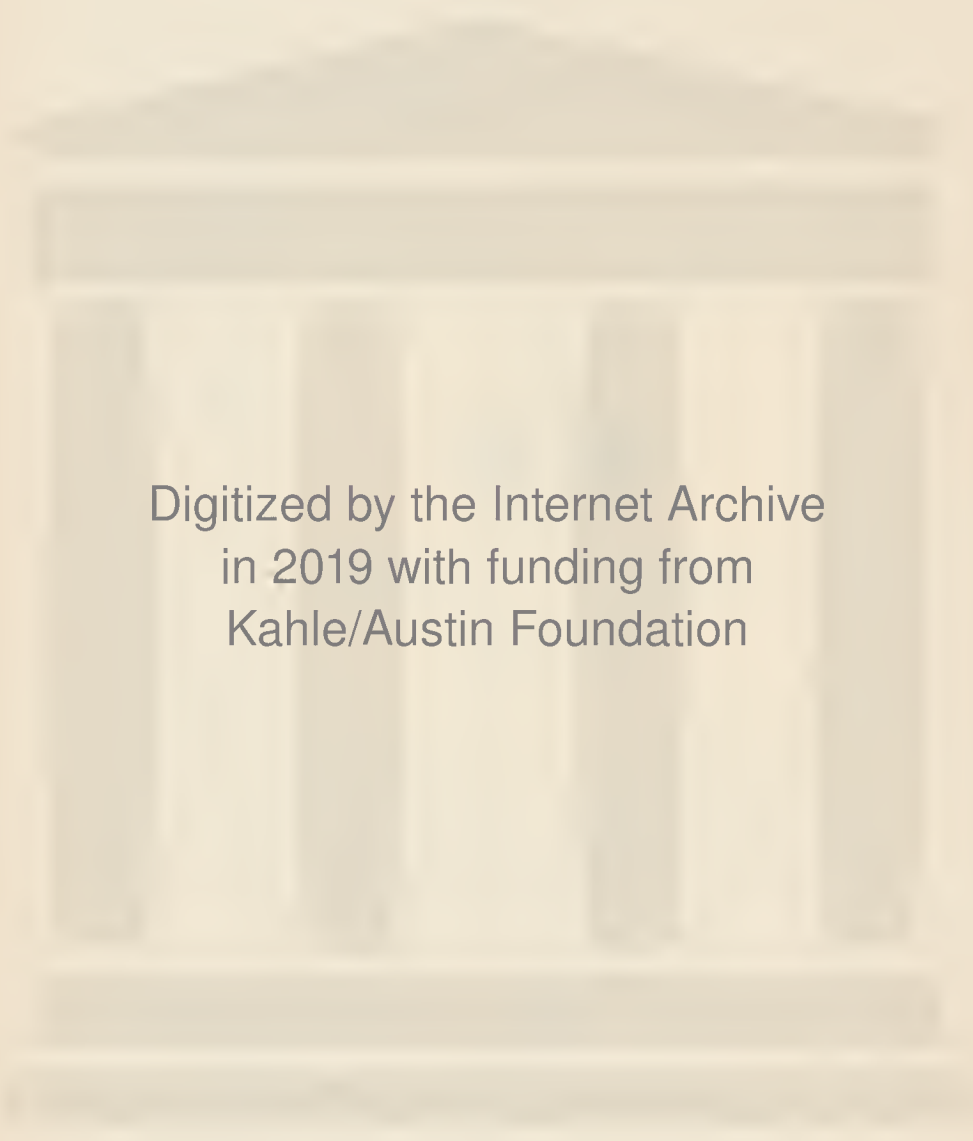
Canadian Political Science Association

1932

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PAPERS AND PROCEEDINGS

OF THE

FOURTH
ANNUAL MEETING

OF THE

Canadian
Political Science Association

VOLUME IV.

TORONTO, ONTARIO

MAY, 1932

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CANADIAN POLITICAL SCIENCE ASSOCIATION

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PROGRAMME OF THE FOURTH ANNUAL MEETING
HELD AT TORONTO, ONTARIO, MAY 23 - 24, 1932

Monday, May 23

9.00 a.m. Registration.

9.30 a.m. Morning Session

Presiding Officer: S. J. McLean, Board of Railway Commissioners.

General Topic: *Unemployment.*

Papers: H. M. Cassidy, A. G. Heakes and G. E. Jackson, University of Toronto; H. M. Cassidy, University of Toronto; H. A. Logan, University of Western Ontario; Frank G. Pedley, Montreal Council of Social Agencies.

Discussion: L. C. Marsh, McGill University; G. E. Jackson,¹ University of Toronto.

2.30 p.m. Afternoon Session

Presiding Officer: S. B. Leacock, McGill University.

General Topic: *Current Problems of Political Science.*

Papers: Robert A. MacKay, Dalhousie University; Norman A. M. MacKenzie, University of Toronto.

Discussion: N. W. Rowell, Toronto General Trust Corporation; Edgar McInnis, University of Toronto.

8.00 p.m. Evening Session

Presiding Officer: H. J. Cody, University of Toronto.

Presidential Address: S. J. McLean, Board of Railway Commissioners.

9.00 p.m. Business Meeting—Reports of Officers, Committees, etc.

Tuesday, May 24

9.30 a.m. Morning Session

Presiding Officer: J. M. Macdonnell, National Trust Co.

General Topic: *Currency Problems.*

Papers: A. B. Balcom, Acadia University; A. F. W. Plumptre, University of Toronto; J. P. Day, McGill University.

Discussion: G. E. Jackson,¹ University of Toronto; F. S. Chalmers, Financial Post; G. F. Towers, Royal Bank of Canada.

2.00 p.m. Afternoon Session

Round Table Conferences:

Public Finance

Chairman: W. A. McKague, Toronto.

Discussion: D. C. MacGregor, University of Toronto; J. L. McDougall,¹ Toronto.

Combines and Public Policy

Chairman: F. A. MacGregor, Registrar of Combines Investigation Act.

Discussion: V. W. Bladen, University of Toronto; J. Finkelman, Toronto; L. M. Singer, Toronto.

Planned Economy

Chairman: J. S. Woodsworth, Ottawa.

Discussion: E. Forsey, McGill University; W. B. Hurd, Brandon College.

Presiding Officer: J. W. Dafoe, Winnipeg Free Press.

General Topic: *The Party System in Canada.*

Papers: Escott M. Reid, Toronto; F. H. Underhill, University of Toronto.

8.00 p.m. Evening Session

Presiding Officer: E. J. Urwick, University of Toronto.

General Topic: *Transportation Problems.*

Paper: W. T. Jackman, University of Toronto.

Discussion: Lesslie R. Thomson, Montreal; W. A. Mackintosh, Queen's University.

¹ No manuscript submitted.

According to its Constitution, the object of the Canadian Political Science Association is the "encouragement of the investigation and study of Political, Economic and Social Problems." When first organized it was called a Political Science Association because it was intended to promote the discussion of all matters of public policy which may become matters for political action, not because it was to be concerned solely with the science of government. In Canada, those matters of public policy are as yet mainly economic and therefore economic topics predominate in the programmes of the annual meetings of the Association. It strives to provide for the discussion of national problems by all who are in any way qualified to deal with them. Its membership contains all shades of economic opinion, and is not confined to professional economists, political scientists or sociologists but is open to all persons interested in the objects it seeks to promote. Obviously, the Association assumes no responsibility for the opinions expressed at its meetings.

PAPERS AND DISCUSSIONS

THE EXTENT OF UNEMPLOYMENT IN CANADA, 1929-32

H. M. CASSIDY, A. G. HEAKES AND G. E. JACKSON

Three years ago, statistics of employment and unemployment in Canada had little interest for anyone except economists. The reading public, dazzled by new conceptions of prosperity, did not regard the risk of unemployment as one of our pressing problems.

Even in those days, so light-hearted an attitude towards unemployment was based upon a misconception: for there is no doubt that in those very prosperous years 1928 and 1929 there was still a good deal of unemployment in Canada, the cost of which had to be borne by someone.

There was still a serious problem of unemployment due to seasonal causes: probably not less than 5 per cent. of the working time of all Canadian wage-earners taken together was being lost in those years, solely because of seasonal influences.

There also remained a serious problem of unemployment due to technological changes in industry; but since the less pleasant consequences of technological change mainly fell upon the older workers, and since as a rule the sufferers were inarticulate, this class of unemployed also received very slight attention from those who were not themselves the victims of it.

To the burdens of seasonal and technological unemployment has now been added the very much more severe—though we hope less permanent—burden of unemployment due to world-wide industrial depression. Here is a risk that cannot be confined to the workers in the seasonal industries, or to those who are “getting on in life”. Here is a risk which everyone must face as best he may. Since 1929, therefore, the subject of unemployment has become “front page news”.

With a large proportion of the population, in any Canadian industrial centre, living on relief funds—and with increasing demands for a system of unemployment insurance or some more adequate method of meeting this problem than the dole—the quantitative aspects of unemployment are of paramount importance to-day.

Here, as everyone knows, our statistics do not directly serve us. Three contemporary records of employment and unemployment are made available from month to month by the Dominion government. One of these deals only with members of trade unions—a small proportion of our working force; one deals only with those who seek work through the Employment Service of Canada—and these also do not present a true cross-section of Canadian industry; the third, embodied in the monthly report of the Dominion Bureau of Statistics on employment conditions in Canada, is in the form of an index number of employment. All three of these leave us in the dark, both as to the total number of our unemployed workers, and as to the proportion of the wage-earners that are out of work on any given date.

This paper represents an attempt to make a quantitative estimate of unemployment in Canada during the past three years. It is based upon the third of the records above mentioned—the index of employment in Canada. This index, as is well known, is in turn based upon the returns of employers to the government, showing the number of workers in their employment at the given date. Our task has been to deduce from the figures so compiled the numbers who are likely to have been out of employment on the same date.

We should add that we do not take for granted the trustworthiness of this index in detail: it is, we believe, a better reflection of conditions in the labour market than most of the corresponding indices in other countries: but its trustworthiness in detail is certainly subject to discussion. We hope only to show what are the conclusions to be drawn from it in so far as this index is itself to be trusted as a quantitative measure of change.

Our enquiries do not cover the whole range of Canadian industry. They relate specifically to eight groups in the

classification of the Dominion Bureau of Statistics: manufacturing, logging, mining, communication, transportation, construction, service and trade. According to the last Dominion census figures some 1,570,000 workers were attached to these eight industrial groups in 1921, making up 50 per cent. of the total number of breadwinners in Canada and 74 per cent. of those in industries apart from the agricultural working force, the groups particularly liable, unlike the farmer owner-operators, to the hazard of unemployment. The most serious gap in our figures is that they do not cover agricultural labourers.

The technique employed in this enquiry suggests that, in these eight industrial groups taken together (and on the assumption already made with regard to the index of employment in Canada) the number of unemployed workers rose from an average of a little more than 160,000 during the calendar year 1929 to an average of a little less than 500,000 workers in the calendar year 1931. The minimum aggregate figure in the period covered by this study, that for August, 1929, is less than 39,000. The maximum, that for March, 1932, is more than 720,000. The facts will be found in detail, in the tables which accompany this paper.

At this point it should be stated that, inasmuch as the government's index of employment makes no specific allowance for short time, so, too, these inferences from the government's index fail to make specific allowance for short time. We do not know whether we are justified in supposing that the monthly returns of employers to the government are of such a character that the number of workers on short time is automatically shown as a rough equivalent of so many workers employed full time.

When the statement is made that the number of the unemployed in eight industrial groups appears to have averaged 500,000 during the whole of the calendar year 1931, this is based upon the major assumption that working forces attached to these industries have increased during the last three years at the "normal" rate. This, in turn, is based upon three minor assumptions; (a) that young people have been recruited from school into these industries at the normal rate; (b) that there has been no substantial loss of workers to other countries by virtue of a movement of unemployed persons to their coun-

tries of origin; and (c) that there has been no important movement of unemployed workers back to the land.

Upon all three of these points we are without adequate information. It is possible that the three forces of young people remaining longer in school, of immigrant workers leaving Canada and of unemployed men settling on the land have lessened substantially the rate of growth of our working force. On the other hand, it is possible that these factors have not been of very great importance in this direction.

We are, therefore, necessarily restricted to the limited objective already laid down for us—that of attempting to determine how many unemployed workers there would be in Canada, within the field of these eight industrial groups, assuming the growth of the working force at the normal rate.

The question of technique is, of course, all important. Unless the statistical technique employed for this purpose is reliable, the conclusions embodied in the tables, even with the qualifications already given, cannot stand. Economists, at any rate, will require no apologies, as preface to the technical explanations that follow.

The problem is simply stated. We were confronted with an index number, which purported to show, from month to month, the proportionate increase or decrease in the numbers employed. This index number was available for each of eight industrial groups. But we did not know how many workers were seeking employment in any one of these groups, or in all of them together. Nor could we treat this working force as a constant: for, as the result of immigration and emigration, of the movement of workers within the country from one industry to another, of death and sickness and superannuation, and of the invasion of the labour market by young people leaving school, the size of our working force is constantly changing.

Our first task, therefore, was to calculate, with such approach to precision as was possible, the number of workers available for employment in each of the eight industrial groups reviewed, on the first day of each month, in the period to be studied.

We were compelled to recognize next, that even if we were to be satisfied with a calculated figure representing the

number of workers available for employment in a particular group and at a particular time, we could not determine the number of workers within that group who were likely to have been unemployed then, merely by working out a rule-of-three calculation with the government index number: for even in the month at the peak of prosperity, when the index number stood at its maximum, we could not assume that unemployment in that industrial group had shrunk to zero. Experience has shown that even in the busiest of times—even in an industry making munitions at the crisis of a war—the number of unemployed never shrinks to zero. Men are always, in the phrase of Adam Smith, “sauntering” from job to job; little dislocations, and sometimes bigger dislocations in the arrangement of work, persistently make men idle for short spells. Labour disputes in one industry cause involuntary stoppages in another. There are many factors at work, as a result of which even in the busiest of times, some workers are always unemployed.

After a good deal of consideration, we decided to regard 2 per cent. of the whole working force as the minimum proportion of unemployed workers, at the height of our industrial activity. This arbitrary selection of a figure accounts for the supposed unemployment of nearly 39,000 workers on August 1st, 1929.

From hence, we proceeded to the central problem, that of determining with as much precision as possible the size of the working force available in each industrial group at the beginning of each month in the period studied.

Our materials were derived from two sources; but even with the data that could be secured from them, we could not with certainty proceed to calculate a figure.

The two sources were, (a) the census of occupations of 1921 and (b) the index of employment in each industrial group for the period 1921 to 1931. From the census the number of workers attached to each industrial group in 1921 was obtained. Then the straight-line trend of the index numbers for the ten year period was calculated by the method of least squares and the indicated rate of increase was applied to the base figures for each group. The aggregate number of workers credited to the eight industrial groups by the census

of 1921 was 1,568,856, while the corresponding figure for 1931, calculated by application of the rates of increase was 2,205,794.

The results of the latest census of occupation have not yet been published; and lacking them, we could not test the validity of this result: but, in the absence of these data, we concluded, after some deliberation, that we should be wise to take the figure 2,000,000 as representing the total working force available, in these eight groups taken together, at the time of the census in 1931.

This represented a slope less steep than that which had originally been calculated: and the slope of each individual curve, relating to each one of the eight industrial groups, was accordingly reduced in the same degree.

On the assumption that the working force available in this large section of the Canadian industrial field was 2,000,000 on the date in question, we were then able to interpolate, and extrapolate figures for each industrial group, in each of the months from New Year's Day, 1929 (the beginning of the period selected for analysis), to the spring of 1932.

The rest was easy, the routine application of arithmetic. The government index number representing employment in each industrial group, at the peak of that group's activity, was taken as equal to 98 per cent. of the working force available in that group, at the peak month. This was the number of workers whom we supposed actually to be employed within that group at the beginning of the month in question. A series of simple calculations then gave us the number of workers who, on that supposition, were actually employed at the beginning of each of the other months covered by the period. We subtracted the number presumed actually to be employed in each month from the total working force then available; and the remainder obviously represented those available for employment in the group but not employed within it.

When figures had been calculated for the working force in the combined industrial groups, and for each of the groups separately (the figures for the combined groups being lower than the aggregates obtained by adding together the figures for each of the separate groups), the monthly figures for each of the separate groups were adjusted, so as to harmonize the

aggregate of them, in each month, with the figure for the combined groups in the same month. That is to say, when we were faced with conflicting totals of unemployment, we took the conservative course and selected the lower of the two, making the necessary adjustments accordingly.

In this manner the results have been determined, which are reproduced in the tables that follow.

Some of the criticisms that might be levelled at these figures have been anticipated, perhaps, by this somewhat involved but essential explanation of our methods. Other criticisms, which we have not anticipated, will no doubt arise in the discussion that is to follow the close of this paper.

For the present we will content ourselves by summing up, in a few words, the principal results that appear, when the methods described above are applied to the data.

The number of workers unemployed, at the minimum of unemployment and at the maximum (39,000 in August, 1929, and 720,000 in March, 1932), has already been given above. The percentages are no less interesting.

From August, 1929, which witnessed the supposed minimum of 2 per cent., the figure rises, with the normal seasonal interruptions, to 11 per cent. in August, 1930, and to rather more than 23 per cent. in August, 1931.

The figures for August relate, of course, to the period of the year during which seasonal activity is greatest. The maximum figures, during each of the three years in question, are as follows:

In January, 1929	15 per cent.
In December, 1930	20 per cent.
In December, 1931	28 per cent.

During the spring of 1932 more workers have been laid off, and the percentage unemployed has grown considerably. The figure for March, 1932, falls scarcely short of 36 per cent.—a somewhat startling figure.

Analysis of the distribution of unemployment by industrial groups is obviously a matter of considerable interest. Our calculations indicate that in 1929, when seasonal influences were predominant, and influences other than seasonal were at their weakest, more than 40 per cent. of all the unemployment experienced, in these eight groups taken together,

was to be found in the construction industries: and that the construction industries, exposed, as everyone knows, to tremendous seasonal variations in activity, were responsible for more than twice as much unemployment, as the next most conspicuous industrial group.

How different was the picture in 1931! It is true that the decline in the construction industries accounted for an increase in the average number of unemployed from 69,000 (the 1929 figure) to 125,000: but the storm which broke upon them broke with even greater fury upon the manufacturing industries, and accounted for an increase in the average number of manufacturing operatives unemployed (again comparing 1929 with 1931) from 22,000 to 150,000.

Little purpose is to be served by trying, on the basis of these figures, to determine how Canada has fared, as compared with neighbouring countries. In practically no instances are the statistics of other countries comparable with these. Some of the countries that have suffered the most severely have the least effective means of measurement. Even in the United States, which has a wealth of accurate statistics of other kinds, it is impossible to determine within a margin of one or two millions how many wage-earners are vainly looking for work at the present time.

By contrast with the United States, as everyone knows, Britain has in the records of her unemployment insurance administration a detailed and fairly trustworthy measure of unemployment, at least in those occupations which are subject to insurance.

While we do not profess that our own figures are strictly comparable with the British, we have thought it worth while to place side by side the percentages of unemployment in Canada, during 1930 and 1931, which are indicated by this enquiry, and the corresponding percentages in Britain. These are:

	Canada	Britain
1930	15.0 per cent.	16.2 per cent.
1931.	25.0 per cent.	21.4 per cent.

On the same basis, Britain appears at present to be relatively more fortunate than Canada—though the contrast would be less marked if the number of “unregistered” unemployed

in Britain were accurately known. The respective percentages for February, 1932 (the latest month for which we have the British figures) are: Canada 35.0 per cent., Britain 22.0 per cent.

For ourselves, there is food for thought in the reflection that during the three complete years which we have studied in this paper (and although one of these years, 1929, was the climax of a period of remarkable prosperity), if the figures in these tables are to be trusted, more than 16 per cent. of the total possible working time was lost as the result of unemployment.

TABLE I
Estimates of the Number of Workers Unemployed in Canada, by Months, 1929-32.
(Eight Industrial Groups and Aggregates)

1929	Manufacturing	Logging	Mining	Communi- cations	Transporta- tion	Construction	Service	Trade	Aggregate Eight Industries
January	58,360	6,206	4,378	5,886	22,754	131,733	47,427	13,147	289,891
February	34,264	4,655	3,456	5,868	21,543	127,992	44,076	30,933	272,787
March	24,585	5,676	3,948	5,432	22,994	123,974	41,819	34,513	262,941
April	25,623	17,071	5,446	5,654	23,205	132,662	43,207	28,767	281,635
May	13,144	15,915	4,076	3,934	13,375	87,597	38,253	23,155	199,450
June	6,907	12,147	3,521	2,538	5,886	44,201	21,889	17,247	114,337
July	13,539	15,730	3,105	2,187	2,814	29,759	5,405	17,619	90,158
August	5,065	10,139	1,474	989	2,016	2,783	2,752	13,414	38,633
September	13,215	11,664	1,477	628	2,560	9,208	4,038	14,494	57,284
October	12,575	8,438	849	845	5,087	26,305	10,717	14,033	78,848
November	20,328	3,543	566	1,423	5,479	34,160	21,340	10,600	97,440
December	40,801	466	998	1,428	13,098	83,406	37,101	5,322	182,620
1930									
January	74,366	1,872	2,856	1,592	24,687	137,750	49,028	11,071	303,223
February	56,964	788	2,533	4,046	27,532	134,508	43,559	30,944	300,873
March	57,421	4,715	3,709	4,962	29,176	145,593	46,236	36,342	328,154
April	62,741	17,502	6,016	6,169	29,632	157,504	49,868	40,631	370,063
May	58,710	20,431	6,125	6,123	22,650	120,760	45,205	34,905	314,910
June	53,740	16,367	5,508	5,245	17,166	84,854	35,013	25,531	243,424

July	67,374	18,381	6,560	5,639	18,299	43,555	23,604	28,165	211,578
August	74,345	21,547	6,120	5,352	17,450	31,429	25,579	37,502	219,323
September	83,629	24,762	6,362	6,068	17,225	53,087	27,248	39,835	258,217
October	82,375	21,049	5,231	6,462	16,644	61,346	39,932	37,199	270,239
November	96,470	17,852	4,103	6,361	22,815	83,717	59,416	34,412	325,147
December	120,357	16,284	6,033	8,749	29,633	123,618	69,515	21,680	395,869
1931									
January	152,835	16,081	7,492	10,897	40,336	151,955	72,276	28,028	479,900
February	137,907	16,155	8,373	12,236	41,845	157,115	72,536	54,186	500,354
March	132,520	18,983	9,269	13,465	43,209	163,698	74,361	58,093	513,599
April	125,156	25,304	10,109	14,131	42,526	175,431	76,673	57,357	526,687
May	119,405	22,801	10,790	13,679	38,237	158,036	74,004	56,650	493,603
June	127,810	23,411	11,287	13,690	35,739	137,739	70,524	56,488	476,688
July	148,756	27,413	12,699	14,785	39,997	123,658	66,504	61,692	495,504
August	159,317	28,525	12,427	14,217	39,371	80,888	62,077	70,737	467,559
September	159,286	27,897	11,951	14,281	39,165	58,780	59,011	72,348	442,719
October	171,586	25,693	10,808	14,915	42,996	79,363	78,325	71,632	495,317
November	177,167	21,223	10,470	15,031	40,674	75,383	90,964	63,767	494,679
December	183,516	20,927	11,235	16,719	45,886	139,600	99,454	60,136	577,473
1932									
January	212,097	22,466	12,571	18,255	59,970	183,561	106,256	62,202	677,377
February	195,187	21,884	13,444	18,268	62,099	202,940	109,368	85,504	708,694
March	193,097	22,946	13,945	19,134	64,099	213,330	104,344	95,699	726,594

TABLE II
Estimates of the Percentage of All Workers Unemployed in Canada, by Months, 1929-32.
(Eight Industrial Groups and Aggregates)

1929	Manufacturing	Logging	Mining	Communica- tions	Transporta- tion	Construction	Service	Trade	Aggregate Eight Industries
January	10.3	17.7	8.1	10.4	11.5	43.1	15.6	3.4	15.2
February	6.0	13.3	6.4	10.3	10.9	41.7	14.4	8.0	14.3
March	4.3	16.2	7.3	9.6	11.7	40.2	13.6	8.9	13.7
April	4.5	48.8	10.1	9.9	11.8	42.9	14.1	7.4	14.7
May	2.3	45.5	7.5	6.9	6.8	28.2	12.4	5.9	10.4
June	1.2	34.7	6.5	4.4	3.0	14.2	7.1	4.4	5.9
July	2.4	45.0	5.7	3.8	1.4	9.5	1.7	4.5	4.7
August	.9	29.1	2.7	1.7	1.0	8.8	.9	3.4	2.0
September	2.3	33.6	2.7	1.1	1.3	2.9	1.3	3.7	3.0
October	2.2	24.3	1.6	1.5	2.6	8.3	3.4	3.6	4.1
November	3.5	10.2	1.0	2.5	2.8	10.7	6.8	2.7	5.0
December	7.1	1.3	1.8	2.5	6.7	26.1	11.8	1.3	9.4
1930									
January	12.9	5.4	5.3	2.8	12.6	43.0	15.5	2.8	15.6
February	9.9	2.3	4.7	7.0	14.0	41.8	13.8	7.8	15.4
March	10.0	13.8	6.9	8.6	14.9	45.1	14.6	9.2	16.8
April	10.9	51.2	11.1	10.7	15.1	48.7	15.7	10.2	18.9
May	10.2	59.9	11.3	10.6	11.5	37.2	14.2	8.8	16.0
June	9.3	48.1	10.2	9.0	8.7	26.0	10.9	6.4	12.4

July	11.7	54.2	12.1	9.7	9.3	13.3	7.3	7.1	10.7
August	12.9	63.7	11.3	9.2	8.9	9.6	7.9	9.4	11.1
September . . .	14.5	73.4	11.7	10.4	8.8	16.1	8.4	9.9	13.1
October	14.2	62.5	9.6	11.1	8.5	18.5	12.3	9.3	13.7
November . . .	16.6	53.1	7.5	10.9	11.6	25.2	18.3	8.6	16.4
December	20.8	48.6	11.1	14.9	15.1	37.1	21.4	5.4	20.0
1931									
January	26.3	48.1	13.7	18.6	20.6	45.5	22.2	6.9	24.2
February	23.8	48.5	15.3	20.8	21.3	46.9	22.2	13.4	25.2
March	22.8	57.1	16.9	22.9	22.0	48.6	22.7	14.3	25.8
April	21.1	76.3	18.4	24.0	21.7	51.9	23.3	14.1	26.4
May	20.5	68.9	19.6	23.2	19.5	46.6	22.5	13.9	24.7
June	22.0	70.9	20.5	23.2	18.2	40.5	21.4	13.8	23.8
July	25.5	83.3	23.0	25.0	20.4	36.2	20.1	15.1	24.2
August	27.3	86.9	22.5	24.0	20.1	23.6	18.7	17.3	23.3
September . . .	27.3	85.2	21.6	24.1	20.0	17.1	17.7	17.6	22.0
October	29.3	78.6	19.5	25.1	21.9	23.0	23.5	17.5	24.6
November . . .	30.3	65.1	18.9	25.3	20.7	21.8	27.2	15.5	24.5
December	31.4	64.4	20.2	28.1	23.4	40.2	29.7	14.6	28.6
1932									
January	36.3	69.3	22.6	30.6	30.6	52.7	31.6	15.1	33.5
February	33.3	67.7	24.1	30.6	31.7	58.2	32.5	20.7	35.0
March	33.0	71.1	25.0	32.0	32.7	61.2	30.9	23.1	35.9

TABLE III

Estimates of Percentage Distribution of Unemployment among Eight Industrial Groups in Canada,
by Months, 1929-32.

1929	Manufacturing	Logging	Mining	Communica- tions	Transporta- tion	Construction	Service	Trade	Aggregate Eight Industries
January	20.2	2.1	1.5	2.0	7.8	45.6	16.3	4.5	100
February . . .	12.5	1.7	1.3	2.2	7.9	46.9	16.2	11.3	100
March	9.3	2.2	1.5	2.0	8.7	47.3	15.9	13.1	100
April	9.1	6.1	1.9	2.0	8.2	47.2	15.3	10.2	100
May	6.6	8.0	2.0	2.0	6.7	44.0	19.1	11.6	100
June	6.0	10.6	3.1	2.2	5.1	38.7	19.2	15.1	100
July	15.0	17.5	3.5	2.4	3.1	32.9	6.0	19.6	100
August	13.2	26.2	3.8	2.6	5.2	7.2	7.2	34.6	100
September . . .	23.0	20.4	2.6	1.1	4.5	16.1	7.1	25.2	100
October	16.0	10.7	1.1	1.1	6.5	33.3	13.6	17.7	100
November . . .	20.8	3.6	.6	1.5	5.6	35.1	22.0	10.8	100
December . . .	22.4	.3	.6	.8	7.2	45.5	20.3	2.9	100
1930									
January	24.6	.6	.9	.5	8.1	45.5	16.1	3.7	100
February	18.9	.3	.8	1.4	9.2	44.6	14.5	10.3	100
March	17.5	1.4	1.1	1.5	8.9	44.4	14.1	11.1	100
April	17.0	4.7	1.6	1.7	8.0	42.5	13.5	11.0	100
May	18.6	6.5	2.0	2.0	7.2	38.2	14.4	11.1	100
June	22.0	6.7	2.3	2.2	7.0	34.9	14.4	10.5	100
July	31.8	8.7	3.1	2.7	8.7	20.5	11.2	13.3	100

Unemployment in Canada, 1929-32

19

August	33.9	9.8	2.8	2.4	8.0	14.3	11.7	17.1	100
September	32.4	9.6	2.5	2.4	6.7	20.5	10.5	15.4	100
October	30.4	7.8	1.9	2.4	6.2	22.7	14.8	13.8	100
November	29.6	5.5	1.3	2.0	7.0	25.7	18.3	10.6	100
December	30.4	4.1	1.5	2.2	7.5	31.2	17.0	5.5	100
1931									
January	31.9	3.3	1.6	2.3	8.4	31.7	15.0	5.8	100
February	27.5	3.2	1.7	2.4	8.4	31.4	14.5	10.9	100
March	25.8	3.7	1.8	2.6	8.4	31.9	14.5	11.3	100
April	23.7	4.8	1.9	2.7	8.1	33.4	14.5	10.9	100
May	24.1	4.6	2.2	2.8	7.8	32.0	15.0	11.5	100
June	26.8	4.9	2.4	2.9	7.5	28.9	14.8	11.8	100
July	30.0	5.5	2.6	3.0	8.1	25.0	13.4	12.4	100
August	34.1	6.1	2.7	3.0	8.4	17.3	13.3	15.1	100
September	36.0	6.3	2.7	3.2	8.9	13.3	13.3	16.3	100
October	34.7	5.2	2.2	3.0	8.7	16.0	15.8	14.4	100
November	35.8	4.3	2.1	3.0	8.2	15.3	18.4	12.9	100
December	31.8	3.6	1.9	3.0	7.9	24.2	17.2	10.4	100
1932									
January	31.3	3.3	1.9	2.7	8.8	27.1	15.7	9.2	100
February	27.5	3.1	1.9	2.6	8.8	28.5	15.5	12.1	100
March	26.5	3.2	1.9	2.6	8.8	29.4	14.4	13.2	100

TABLE IV
Estimates of the Average Number of Workers Unemployed in Canada, by Years, 1929-31.
(Eight Industrial Groups and Aggregates)

Year	Manufacturing	Logging	Mining	Communica- tions	Transporta- tion	Construction	Service	Trade	Aggregate Eight Industries
1929	22,367	9,304	2,775	3,068	11,734	69,482	26,502	18,604	163,835
1930	74,041	74,041	5,096	5,564	22,742	98,143	42,850	31,518	295,085
1931	149,605	22,868	10,576	14,004	40,832	125,137	74,726	59,260	497,007

TABLE V
Estimates of the Percentage of All Workers Unemployed in Canada, by Years, 1929-31.
(Eight Industrial Groups and Aggregates)

Year	Manufacturing	Logging	Mining	Communica- tions	Transporta- tion	Construction	Service	Trade	Aggregate Eight Industries
1929	3.9	26.6	5.1	5.4	6.0	23.0	8.6	4.8	8.5
1930	12.8	44.7	9.4	9.6	11.6	30.1	13.4	7.9	15.0
1931	25.6	69.4	19.2	23.7	20.8	36.8	22.6	14.5	25.0

TABLE VI
Estimates of Percentage Distribution of Unemployment among Eight Industrial Groups in
Canada, by Years, 1929-31.

Year	Manufacturing	Logging	Mining	Communica- tions	Transporta- tion	Construction	Service	Trade	Aggregate Eight Industries
1929	13.6	5.6	1.7	1.9	7.2	42.4	16.2	11.4	100
1930	25.1	5.1	1.7	1.9	7.7	33.3	14.5	10.7	100
1931	30.2	4.6	2.1	2.8	8.2	25.2	15.0	11.9	100

RELIEF WORKS AS A REMEDY FOR UNEMPLOYMENT IN THE LIGHT OF ONTARIO EXPERIENCE, 1930-32

H. M. CASSIDY

The tragic economic events of the last three years have forced upon governments in Canada the responsibility of assisting the unemployed. Reluctant to undertake this task, they have nevertheless extended their operations as the depression has continued until to-day public unemployment relief on a grand scale is quite general. Our political leaders, nurtured in a tradition of pioneer individualism, naturally approached the problem with staunch objections to relief that smacked of the "dole." "Work, not doles," they declared, would be given to those in need. In furtherance of this policy work schemes have formed the backbone of the great relief programmes carried on in two successive years by the Dominion, provincial and municipal governments, under the Unemployment Relief Act of 1930 and the Unemployment and Farm Relief Act of 1931.

But now, after two years of experimentation, it appears that the era of work relief has passed. Recently there has grown up a strong feeling that relief works cannot be carried on further for financial reasons. According to official announcements this view is now generally accepted by the public authorities. The Dominion has just enacted legislation for a third year's programme of relief, and the new scheme does not contemplate further work projects, except in special instances. Indeed, the Minister of Labour has stated in the House of Commons, the method of direct relief is to be employed, a policy in which the various provincial governments concur.¹

Thus it appears that we are witnessing a complete reversal of public policy, and that we are coming to the "dole" after all. Does this indicate that the method of relief works

¹*House of Commons Debates (Canada)*, May 11, 1932, p. 3068.

has proved a complete failure? A brief analysis of Ontario experience during the last two years may throw some light upon the question.

Although a few of the municipalities had set in motion relief works during the winter of 1929-30, it was not until the fall of 1930 that there was any extensive effort of this nature. The Unemployment Relief Act of September, 1930, provided that the Dominion government would contribute 25 per cent. of expenditures on municipal relief works on condition that the province contribute a like amount and the municipality pay the remaining half. Our municipalities, harassed by demands of the unemployed for assistance, welcomed the opportunity of obtaining subsidies and 195 of them agreed to initiate works. The provincial authorities, who passed upon the undertakings that should be subsidized, followed the principle of approving only those that required a large amount of direct labour and refused to approve building projects for which material and equipment bills would be large. In consequence the municipal engineers were seriously restricted in their choice of works and it turned out that practically all of the jobs approved involved the moving of dirt in huge quantities, work which could be done, it was presumed, by any man strong enough to handle a pick and shovel. About three-quarters of the undertakings consisted of the installation of sewers and gas and water mains. The scheme was designed frankly for the winter season, evidently in the expectation that unemployment would cease to be acute the following summer. The municipal programmes were generally completed by April or May of 1931, the end of the period during which government grants were made.

Expenditures on municipal works for the season 1930-31 were approximately \$15,000,000. In addition the province carried on certain projects which cost about \$2,000,000, so that total expenditures on public relief works were some \$17,000,000.

The most difficult problem of administration which the municipalities faced was the distribution of employment. Hordes of unemployed men applied for relief jobs, far too many to be given steady work. In consequence the municipal authorities were forced to set up emergency machinery to sort

out applications and allocate men to jobs. Much the greater part of the work was given to married men who had resided more than six months or a year in the municipality. But it was quite impossible to provide even this limited group with steady employment so that rotation systems were established where men were given turns of two or three days or a week at a time. In some communities eligible men got about one week's work in every two or three, while in others, such as Toronto, where the rule was one week's work in every eight, the turns came much less frequently.

During the summer of 1931 practically no relief work was carried on, although unemployment remained heavy and the need for assistance was very great. Then in the autumn extensive programmes were again set under way, both by the municipalities and the province. As in the preceding year the Dominion and the province agreed to share one-half of the expenses of general municipal works, upon which total expenditures of \$12,867,510 were authorized. In addition arrangements were made for the erection of municipal buildings in Toronto, Hamilton and Ottawa at a total cost of \$2,000,000, 25 per cent. of which the Dominion and the province agreed to share; and for the construction of sanatoria to cost \$2,000,000, 35 per cent. of which the two governments were to contribute. The provincial government undertook to carry on an ambitious programme of road construction, which involved the building of sections of the Trans-Canada highway and many local roads in northern Ontario, as well as a highway from Madoc to Perth in the southern part of the province. The Dominion agreed to assume 50 per cent. of the cost of the Trans-Canada work and 40 per cent. of the cost of the provincial highways. Total expenditures authorized on provincial works amounted to \$11,001,667. Thus total expenditures on public relief works in Ontario, not including certain Dominion undertakings that were also projected, were to be about \$28,000,000, a very substantial increase over the preceding year. As before it was planned that the schemes should come to an end at the close of the winter season.

As in the preceding year the general municipal works consisted very largely of sewer construction and other dirt-moving jobs. Again the municipalities found that they did

not have nearly enough work to distribute among the greatly increased number of claimants. Although many places enforced stricter eligibility rules than in the preceding year, placing greater emphasis upon the relative needs of applicants, it proved impossible to provide steady employment for eligible workers, so that again the rotation of work system prevailed quite generally.

According to government plans as announced last autumn the provincial highway schemes were designed primarily to give employment to single men, while the municipal works were to care for married men who could not well be taken away from their homes. In fact, men from both groups have been used on the government road schemes, the married men having been drawn particularly from communities close to the scene of work. The southern Ontario men on the northern road jobs were employed steadily during the winter, but most of the workers from northern Ontario were employed in shifts of about two or three days a week. These government works that were projected last autumn, like the municipal schemes, have now been completed or nearly completed and the armies of relief labourers have been demobilized. Yet unemployment is tremendously heavy at the end of this second year's programme and the need of the unemployed for assistance is greater than ever.

There is no time to-day to undertake a detailed discussion of Ontario's experience with relief works. May I, therefore, merely set down in summary fashion what I think may be said in favour of the experiment and what may be said against it. The observations that follow are based largely upon first-hand investigation in 15 or 20 of the leading municipalities of the province.

I think that the programmes of the past two years have the following points to their credit:

- (1) They provided a good deal of employment, chiefly for married men who were, in the majority of cases, desperately in need of it. In 1930-31 total disbursements in relief wages probably amounted to about \$10,000,000 or some 60 per cent. of total expenditures. This amount was distributed in small sums

among a large number of men, perhaps 50,000 to 100,000.²

From the incomplete figures available it appears that relief wage disbursements for 1931-32 may amount to \$15,000,000 or more. The total number of men given employment on relief works throughout the province from September, 1931, to January 31, 1932, was 89,500 according to provincial reports to the Dominion Unemployment Relief Branch, while the number of employed on government road projects alone, up to April 1, was more than 40,000. In 12 of the larger municipalities³ for which accurate figures are available the average earnings per man engaged amounted to \$98.62 during the season 1930-31. While average earnings were generally small, they no doubt supplemented the private resources of many families sufficiently to enable them to subsist without applying for direct relief. For others who drew food and fuel from the direct relief offices their earnings provided indispensable ready cash for the payment of rent, gas, water and light bills which were generally not provided for by public charity.

- (2) No doubt relief works have done something to maintain the morale of the unemployed. Municipal officials state that the men with whom they have had to deal have much preferred wage work to "direct relief"—which is merely a polite name for poor relief. There is universal testimony that prolonged idleness and subsistence on charity exert deteriorating effects of the most serious nature upon the workers. Careful students of the problem generally agree that relief works have had bad effects also, but so far as I can judge from the opinions expressed

²An accurate figure for the province as a whole is not available, the figure of 43,000 reported by the provincial authorities to the Dominion Unemployment Relief Branch being only an estimate that is undoubtedly far too low.

³Toronto, Hamilton, Ottawa, London, Windsor, Kitchener, Brantford, Oshawa, Niagara Falls, Stratford, St. Thomas and Port Arthur.

by many persons in close touch with the Ontario situation these have not been particularly noticeable in most of our cities. On the other hand there is much testimony that the opportunity of relief employment has sustained the spirits and self-respect of the better class of workmen among the unemployed. The government road projects in the north, which offered much more regular work than most of the municipal undertakings, appear to have been particularly effective in this respect. Another good characteristic of relief work is that it has to a considerable extent been available for respectable workmen who were not completely destitute and who would not apply for or would not be entitled to direct relief, but who were surely deserving of assistance before their reduction to utter destitution.

- (3) The programmes have left in their wake many useful public improvements. By no means all of the works fall in this category, but those that do represent tangible assets which have been created by the unemployed for the service of the community in the future.
- (4) Relief work schemes have undoubtedly provided a certain stimulus for trade and industry in general which would have been lacking had they not been undertaken. Expenditures for materials, such as sewer pipe, have created employment as well as expenditures made directly for labour, although the former item is not directly reflected in figures of relief employment. Many economists feel that it is the part of wisdom for governments to spend generously upon capital enterprises in times of depression and that by so doing they counteract the influences of contraction in private business. There is some evidence that Canadian business activities have not been curtailed quite so much as those in the United States during the last two years. Perhaps our extensive programmes of public construction have provided a cushion for our descent into the valley of economic humiliation which has been lacking in the

United States, where the Federal government and most of the states have done little or nothing to set in motion relief works.

On the other side of the ledger I think that we are forced to list a number of objections to our works programmes:

- (1) They have been insufficient to provide nearly enough jobs for all the unemployed. For the 37,000 men engaged on relief works in 12 leading municipalities⁴ during the season 1930-31 the average amount of employment per man ranged from 11 days in Toronto to 45 days in Port Arthur, while the average for the 12 municipalities was 21 days. During the past year the average amount of work per man engaged on municipal undertakings has probably been even less than in 1930-31. The number of single men registered as unemployed in southern Ontario last August under the government registration scheme was 57,551, yet the number given jobs on government road projects was only about 7,000, or 12 per cent. Both the number and the proportion taken from northern Ontario, it should be noted, was very much greater. In spite of the fact that the programme for 1931-32 has been very much larger than that of the preceding year it has not increased sufficiently to keep pace with the mounting tide of unemployment, so that growing numbers of the unemployed have been forced to rely for subsistence upon direct relief. Public expenditures on direct relief throughout the province were about \$4,000,000 during 1930-31 (September to September), while expenditures of \$11,000,000 to \$12,000,000 are in prospect for 1931-32.⁵
- (2) In general the Ontario schemes have provided only one class of work—pick and shovel labour. This was particularly true in 1930-31, for the building projects of this past year have made openings for a limited

⁴See p. 25, footnote 3.

⁵Estimates based upon figures for leading municipalities and government subsidies. No official totals for the province are available.

number of skilled craftsmen. The fact that men of diverse trades were herded together in the relief gangs was good neither for the work nor for them. A good many were not in proper physical condition to do the work of navvies, or were unsuitable for it in other ways. It is obviously impossible for public employment schemes of an emergency nature to provide each unemployed person with a job in his own trade. But it is a serious mistake to assume that the problem of unemployment can be met by providing everyone with the opportunity of doing the lowest common denominator of work, navvying. Even this demands a certain amount of capacity, training, experience and skill. As the Minority Report of the British Poor Law Commission of 1909 states:

It is a fallacy to assume that there is such a thing as work, in the abstract, or of an undifferentiated character. The work that is of any use in the world is always the doing of some specific service.

It may be questioned also whether it is reasonable to put men of other trades to work at navvying jobs at times of stress. This means, almost inevitably, that there is less work for common labourers, either at present or in the future, and that distress due to unemployment, which is chronically severe for them, may be made even worse.

- (3) A good many of our relief work projects have been of dubious value to the community. In some places work for work's sake has been a fetish with municipal officials, as in one Ontario city where men were given the task of levelling off a knoll and filling in a hollow, a job which the municipal engineer stated would never have been undertaken but for the need to create work. In other places many jobs were done that would not have been undertaken normally for three, five or ten years. Thus sanitary sewers and water mains have been installed and roads have been graded on streets where there is only an occasional house. It is difficult to say what proportion of municipal projects fall in this category. Certainly not all,

for a great many have been well justified, from the standpoint of ordinary civic needs. But a substantial number may be classified as civic luxuries or non-essentials, to say the least. The prosecution of such works, of course, has created a burden of unproductive debt for the community to bear. In many places anticipation of future needs in the way of sewers, watermains, etc., has gone so far that it is practically impossible to find further works of this nature that can be termed useful.

- (4) Typically the relief method of construction has been wasteful and inefficient, as compared with ordinary commercial practice. Municipal engineers whom I have questioned have been unanimous on this point, and have submitted estimates of excess costs on various relief jobs undertaken during 1930-31 ranging from 5 per cent. to 300 per cent. Specific figures for a few typical undertakings are submitted in Table I.

TABLE I

City	Job	Cost of Relief Project	Estimated Normal Cost	Increased Cost
A	Flood prevention ..	\$200,000	\$100,000	100 per cent.
B	Sewer	260,000	114,000	128 " "
C	Street grading	15,000	12,000	25 " "
D	Road improvement	11,466	6,000	91 " "

Although information is not at hand for making an adequate estimate, it seems probable that expenditures on the 1930-31 municipal programme must have been at least 40 or 50 per cent. higher than normal costs, on the average.

There were several major reasons for the greater expense of these municipal works. For one thing, hand labour was generally employed, even where machinery could have been used to greater advantage. Steam-shovels and trenching machines were commonly laid up, to be replaced by pick and shovel brigades. Secondly, the work was done mainly dur-

ing the winter months, when climatic conditions were unfavourable for efficiency. Still more important, according to the engineers who were interviewed, the relief workers were not nearly so competent as regular men. A further factor was the waste of time and the confusion occasioned by the personnel of the gangs changing every few days.

- (5) Relief work has proven distinctly expensive as a method of relieving the unemployed. About a dollar of expenditure was required in Ontario municipalities in 1930-31 to provide a man with 60 cents in wages, and even more this past year. There would surely be no objection to this, on financial grounds, if the community were getting a dollar's worth of work on necessary enterprises which it would have to carry on anyhow at some time or other in the near future. But, as it has been pointed out, this has not always been the case. In a fair number of instances, it appears, it would have been economical to have distributed the amount paid out in relief wages as direct relief and to have provided for the construction of civic works later, as they were needed, by ordinary methods. In another way, too, the work plan has been relatively expensive to the public authorities. Applicants for work are usually much more numerous than applicants for direct relief, so that provision has to be made for assistance in a greater number of cases. The view has become common that direct relief is cheaper than relief work, and this is undoubtedly correct, in the short run. It may also be true in the long run, under conditions of the sort that have been mentioned.
- (6) The fact that our relief schemes have been so largely initiated and administered by the municipalities has given rise to a variety of problems. Eligibility rules, wage rates, and amount of employment offered have varied from place to place, so that there has been no uniformity of treatment for the unemployed. The burden of providing assistance through work

has been distributed most unequally among the municipalities, a number of those with heavy unemployment and tax rates that are already too high having struggled to do a good deal in this direction, while others, much better able to finance schemes, have made only moderate expenditures.

- (7) During the present year the problem of financing work plans has become serious for all branches of government, but particularly for the municipalities. Since Canada's departure from the gold standard last autumn the financial markets have been most unfavourable for the flotation of bonds and debentures. At the same time the banks have shown serious concern over governmental overdrafts and in many instances have refused municipalities further accommodation, except on condition that they curtail expenditures. Tax collections have fallen seriously, particularly in those municipalities that have the largest proportion of unemployment. At the very time when there is the greatest need for public assistance to the unemployed the problem of meeting that need through borrowing short or long term funds or through raising money by taxation has become almost insuperable for many municipalities. The Dominion and provincial governments are also finding the financial situation difficult.

The weight of this argument, it appears, is definitely against relief works as they have been conducted in Ontario during the past two years. Certainly it may be said that Ontario has not found relief work a very successful remedy for unemployment. Had we been aware of English experience we might not have been so optimistic, two years ago, that the problem of unemployment could be solved by digging sewers—or even by building the Trans-Canada highway. Investigators for the English Poor Law Commission reported in 1909 that:

... municipal relief works have been in operation for twenty years, and must, we think, be pronounced a complete failure. . . The evidence we have collected seems conclusive that relief works are economically

useless. Either ordinary work is undertaken, in which case it is merely forestalled and, later, throws out of employment the men who are in the more or less regular employ of the councils, or else it is sham work which we believe to be even more deteriorating than direct relief.

I am not prepared to go so far in condemning relief works. I think that the programmes of many Ontario cities have proven of real service in meeting the unemployment situation and have been preferable to direct relief. They have had, at least, a limited usefulness, particularly during the earlier part of the depression. To state this is not to minimize the objections that have been listed above. It is merely to say that relief works were much better than nothing at all or better than a bad alternative. As for the provincial programme of the past year, it has not been open to many of the defects of the municipal schemes and I believe that there is a good deal to be said for carrying it on further rather than abandoning it.

No doubt a number of the deficiencies of our works experiment might be avoided were our governments to undertake it again, having learned by experience. But I suspect that we shall find the method of relief works disappointing if we turn to it again in a later depression. For the nature of relief works is that they are set under way in a hurry to meet an emergency, without time for careful planning. Most of the difficulties that have been experienced in Ontario flow from this characteristic. The financial problems of our local governments are a reflection, in large part, of their expensive spending on public improvements in preceding fat years, without thought for the lean years that would follow. Their lack of suitable projects for relief purposes arises largely from the same cause. Much of the inefficiency that has characterized the schemes may be attributed to faulty administration incidental to the performance of a rush job in a great emergency, without the development of careful policies of selecting and directing workers.

If relief works are to be really successful during a depression, it appears, they should be planned well in advance, in the years of prosperity. But if this is done, they cease to be relief works. They become rather useful undertakings that are postponed until the period of depression and that

may be constructed, by suitable workers, no more inefficiently than works done in good years. There is much evidence that a public construction programme of this sort would do a good deal to counteract the fluctuations of private business. Relief works of the kind we have had may have failed, in large measure, but that does not say that the idea of provision of work by the public authorities in time of crisis is false. It is fatal, I believe, for us to give up the idea of setting the unemployed to work and to relapse into acceptance of direct relief—our Canadian “dole”.

UNEMPLOYMENT INSURANCE IN CANADA

H. A. LOGAN

This paper has to do with (1) the situation with us as it stands, (2) a study of unemployment insurance in its different types, (3) some attempt to evaluate those types, and (4) the argument on the subject itself considering it in its economic and constitutional aspects as well as from the standpoint of justice.

Let me say at the outset, lest the message becomes lost in the detail, that theoretically the case for unemployment insurance seems beyond denial; that practically it abounds with difficulties; that, lastly, these difficulties are not insurmountable.

Since the last meeting of this Association not a great deal has happened in Canada relative to the subject of this paper but the problem to which it proposes to give relief is still with us in unabated quantity. It is fitting, therefore, that we persist with our investigation. For those to whom mass figures carry any meaning the thought of half a million workers idle involving a loss in potential wealth of perhaps five million dollars a day in a country of ten million inhabitants is challenging enough. In the earlier stages of our present depression there was considerable attention paid to finding a scapegoat. Who was to blame for all the muddle in the industrial setup? Was it the banking system or Wall Street speculation or something else? During the last year there has probably been less of this emphasis and more attention to the question of nursing ourselves through the period of convalescence. Industry itself remaining impotent, our federal government became interested in the quantitative aspects of the trouble and, ostensibly with the idea of learning the size of the patient before administering a dose of any kind, numbered off the jobless last August. The information unfortunately was not of a continuing kind. It gave us a picture of ourselves at the time but reveals to us little of our condition to-day. The same weakness will characterize the figures of the federal census. What the situation calls for is a perpetual notifica-

tion to ourselves of the numbers out of work. This can only be had through a general system of employment exchanges with automatic enrolment of the jobless such as exists in Europe. What is wanted is continuing statistics of numbers employed first, absolutely, and, second, in respect of different industries and enterprises. How far a decennial census will contribute to these requirements and what further data procured through other sources is in the hands of our governments we are unable to say. With the promise of the federal Prime Minister made in April, 1931, to introduce an unemployment insurance scheme to which workers, employers, provinces and Dominion would all contribute as soon as time permitted an analysis of the census the members of this convention are sufficiently familiar. The Canada Trades and Labour Congress has consistently advocated unemployment insurance of a Dominion-wide character. The Federation of Catholic Workers and the all-Canadian Congress of Labour while disagreeing as to type are likewise sponsoring insurance. The Canadian Manufacturers' Association remains on record as "opposed to any such unproved and even dangerous palliative as unemployment insurance."

The public in general lacks knowledge of what insurance really is. Attitudes among the people are emotional rather than informed. As for actual legislation relative to unemployment, parliament has passed two bills dedicated to the idea of relief. By the first of these, twenty million dollars were voted at the emergency session of 1930 to assist the different provinces and municipalities in their various endeavours at constructive public works and direct relief. Under it approximately seventy-five million dollars were contributed in the course of a few months by the various governments in Canada. By the second act passed during the regular session the government of the day was given a blank check for similar assistance to the provinces and for purposes of public works, railway, highway and other constructive developments carried on directly under federal jurisdiction. The act expired on March 1, 1932, but, after some protest from the opposition in parliament with regard to its indeterminate amount, it has been renewed. Now the report is that so far as the immediate future is concerned public enterprise with its public wage

payments is to be abandoned largely in favour of direct relief. This means that Canada's army of unemployed is to stand mainly on the basis of charity engineered by our municipalities and contributed to by provincial and federal governments.

The nature of these parliamentary measures reflects the condition of the public mind. Most people are concerned almost entirely with a present emergency. They want action calculated to meet the present situation. But what the public is in danger of overlooking at this period of stress is the fact that unemployment is not chiefly a problem of emergency periods like the present; it is with us at all times, standing as a threat to the workers' security and curtailing the creation of potential wealth.

To this audience the analysis of unemployment causation into the three main strands, seasonal, technological and cyclical is commonplace enough. We should remind ourselves, however, that among these last named, though the most sensational is also sporadic withdrawing for comparatively long periods between its abrupt visitations and leaving us at peace, whereas the other two play their effects upon us every year. Seasonal unemployment is necessarily a big problem in a country situated as far north as Canada with all its major industries located within a few degrees of latitude. It is more important proportionately than in most countries. Technological unemployment is a characteristic of all progressive countries to-day. The displacement of workers through technological change is an ever-growing fact and one that is too often left out of the count in popular discussions on unemployment remedies. The much discussed stabilization of output does not cure it. The dovetailing of industries that operate at different times of the year does not touch it, neither does making goods to stock or sales policy devoted to the regularization of demand. Even the conquest of industrial depressions and the smoothing out of the business cycle to which so much academic attention is going nowadays would have little bearing on its alleviation. Government work plans which have up to now been directed largely toward assisting periodic cyclical unemployment and at the hands of the municipalities have afforded menial jobs to considerable numbers seasonally out of work have made no attempt to cope with

workers displaced through mechanical invention. Theoretically, it would seem that only some system of rapid action, vocational training and rehabilitation would be calculated to remedy this type of unemployment and even with this, assistance would be required to carry the displaced workers during the period of retraining or until industry opened up its arms to receive them at some new point.

There is a fourth line of causation, moreover, that forces itself upon our attention to-day, which is quite as incalculable as any heretofore named, that is, the political. Tariffs suddenly thrown up by nation against nation, war debts and political arrangements upset the balance of world production and consumption theretofore existing. Few would deny the unsettling effects of these activities of governments since the year 1918 as affecting unemployment. They have ranked with technological causes in their importance and in the unforeseen quality of their results.

Unemployment to-day we may, therefore, briefly characterize as (1) perpetual, (2) complex as to its causation, and (3) situated mainly beyond the control of individual workers or firms.

The question is, where should its burden rest? Should the incidence fall upon the man who happens to find himself out of work, and his family, or should the weight be distributed over the larger numbers according to some principle of ability to bear it or possibly according to comparative responsibility for causing it? Should it be treated, in other words, as a matter of individual or of social responsibility? This brings us to the subject of unemployment insurance.

In the use of all forms of social insurance, whether for accident, sickness, old age or unemployment, Europe has led the way. Germany, in the days of Bismarck, while not applying it to unemployment, was already trying out the principle and other progressive states soon followed in line. To-day fairly complete social insurance systems are characteristic of the leading European countries. For the year ending March 31, 1931, an amount equal to fifteen per cent. of the entire wage bill of Great Britain or six per cent. of the national income according to the estimates of the Metropolitan Life Insurance Company went to that country's workers in various

forms of social insurance. Eighteen European countries have relatively effective systems of unemployment insurance though not all of these are compulsory for workers generally through state decree. The movement there is general with no instances of retraction. On the other hand, except for a belated acceptance of the insurance principle in connection with accidents and industrial diseases, a limited use of old age pensions in Canada and certain American states, and the recent unemployment provision in Wisconsin, this continent has left the individual to fend for himself. This has been partly a matter of philosophy and partly a matter of natural environment and indeed these two are not unrelated. Our emphasis has been upon individualism and our close association with the land, especially under pioneering conditions, has undoubtedly reinforced us in this philosophy so generally held among Anglo-Saxons in the eighteenth and early nineteenth centuries. The land again has been a great absorbent, giving and receiving workers to urban industry according to the latter's need. In Europe the land has long been too dissociated from the urban worker to perform this service. He must turn elsewhere for support when the job slips away. The same situation is now confronting our workers, in fact, has confronted them for some time in our great centres of population. What is to be their new way of security? With their old reliance failing are they destined likewise to compromise with their individualism and self-dependence and appeal to social and political means to bind them to society and to each other in systems of mutual aid in times of distress?

Unemployment insurance may be classified into two types depending on whether or not the government takes a hand in it. The latter is by far the older kind. In Great Britain, for instance, the trade unions and fraternal organizations carried on a great deal of this line of activity in the latter part of last century. By 1903 no less than a million workers are said to have been insured through the great trade unions of that country. This kind of insurance, moreover, is not unknown on this continent. Some three or four of the internationals have so functioned, but the movement has never assumed any proportions comparable to that of Great Britain. Again, in America, certain individual firms have co-operated with their

employees in building up out-of-work funds, which experiments have received wide advertisement.

Considered as a total, however, this kind of unemployment insurance is of little practical importance here. Though operated in some instances for years the number of workers covered through trade unions in the United States only amounts to less than one-half of one per cent. of the nation's workers.

Under this general type should be included a discussion of the proposal that unemployment insurance should be developed through the medium of another type of organization already at hand, that is, the life insurance company. To my knowledge nothing of the sort has actually operated, but following a recommendation a few years ago by Mr. Herbert Hoover, then United States Secretary of Commerce, to a meeting of the officers of the Metropolitan Life Insurance Company a lot of attention was given it by the actuarial societies in America. Mr. Hoover's pronouncement was a forceful one, for after scoring insurance through government as an "encroachment of bureaucracy into the daily life of our people" he declared:

I do commend to your President and to your officers and to you, that here remains the one great field in which insurance can be employed scientifically, founded on the basis of actual savings, contributed to by the employer, and in which you can provide one of the greatest safeguards to our social stability.

The first reaction on the minds of the leaders of the company appears to have been favorable and that this was quite in line with the proper development of the company's work. In 1924 and again in 1926 and 1927 they sought an amendment to the New York Insurance Law to allow life insurance companies to write insurance against loss from unemployment.

The idea seems to have been to operate it as an extension of the principle of group insurance to include unemployment losses. No insurance company has ever offered to write unemployment insurance to individuals in the same manner as is done with life, accident, and health insurance policies.

Further study, however, seems to have put a quietus on the enthusiasm of the insurance companies in connection

with the matter. Generally, it has come to be appreciated that it would be rash for life companies to jeopardize the funds held in trust for beneficiaries of their policyholders through writing insurance on risks as hazardous as unemployment has come to be. This conclusion I take to be sound. Life insurance companies are not equipped to take over entrepreneurial risks, especially where they have no control over managerial policy.

Turning then to the type of insurance in which the state plays a rôle we find to-day some 48,000,000 workers insured. Apart from a limited number in Australasia these are all found in Europe. A further distinction should be made among these, however, according to whether the systems are voluntary or compulsory. Of these the latter is the more important and it is to it that we usually refer when speaking of unemployment insurance. It includes Great Britain, Germany, Italy, Russia, Austria, in fact, all the large industrial nations of Europe except France. Voluntary insurance, which seems to have developed first in Belgium and is often spoken of as the Ghent System, includes, in addition to France and Belgium, Norway, Denmark, Spain, Czecko-Slovakia and a few other small countries. The trend in recent years seems to favor the compulsory type which now covers 45,000,000 workers as over against 3,000,000 covered by the other.

Nevertheless, the voluntary type is interesting as illustrative of a natural development. Douglas and Director in their recent book, *The Problem of Unemployment*, have seen fit to call it an intermediate stage between the simple trade union insurance described above and full compulsory insurance as used to-day in Britain and Germany. In Belgium the system developed upon a background of local trade union insurance. The first government assistance came when the municipalities subsidized these union benefits. Next the central government added its subsidy to those of the cities, and later it subordinated the latter to its own purposes of standardization, though allowing them still to function as agencies for supervision. In Denmark, on the contrary, the central government took the initiative, authorizing the municipalities to make subventions to the local societies and later making this compulsory. The Ghent system generally, it would seem, has

built upon a background of local unions and then, as the union structure changed to emphasize the national organization, the latter became the chief agency for its administration, while the national government naturally assumed the chief rôle as the organ of state expression.

It is difficult to see where such systems would be applicable to Canada. In the first place, our unions have not stressed the insurance feature; secondly, only a fraction of our workers are organized; finally, the main body of our unions is tied up with an American membership. Of these the greatest difficulty is the second. In all countries where this form is used the insurance coverage is practically limited to its trade union membership, thus leaving many of the most needy without any provision. Furthermore, the incidence is wrong. Most students to-day agree that the burden of unemployment insurance should rest in part at least upon the employer.

Conceivably, a variation of this principle of government subsidizing might operate through the government assisting schemes inaugurated by individual firms and then requiring minimum standards of performance. Up to date though we must admit there is little foundation to build upon.

Compulsory insurance with which this paper is chiefly concerned is different in principle in that it appeals to state authority to lay down through legislation compulsory provisions for contributions and the conditions under which benefits may be received. It also defines exactly the groups or classes in the population who shall be covered by the act.

Compulsory insurance, as existing, is of three main types. First, that exemplified by the British Act which provides for contributions from three parties, employers, employees, and the state—with the state responsible for administration. Second, that used by Germany, where ordinary contributions come only from employers and employees, while the state pays the cost of administration, and the administering is done through organizations numbering equal representatives of employers and employees with state chairmen. Third, the legislation passed during the present year in the State of Wisconsin wherein the principle of separate responsibility of each employer for his own unemployed is upheld. To this end

separate accounting is planned for each employer as to the contributions he has made and the benefits paid out on behalf of his discharged employees, and provision made for the close correspondence of the two by means of having both flexible. The administration is in the hands of the state Industrial Commission and the cost of administration as well as of benefit payments is laid against the employers. The burden of unemployment insofar as it is shifted through insurance thus becomes a straight charge upon industry. It is pertinent to observe that this principle has been endorsed by the American Association of Labor Legislation as well as by the Commission of Governors of New York, New Jersey, Pennsylvania, Ohio, Connecticut and Massachusetts, a self-constituted study group for the investigation of unemployment insurance in its various forms.

Under the British system no distinction as to rates is made between high-paid and low-paid workers. High and low alike contribute in the same measure to the fund and likewise receive the same from the fund, although distinctions are made according to sex and in keeping with marital condition and number of dependents. But under the German law distinction is made between high- and low-waged workers, this being accomplished by a system of groups arranged according to the increasing wage rate. By this means differential standards of living are upheld in some measure even under conditions of unemployment. Rates of benefit, however, do not run entirely in proportion with wages. An unskilled worker receives as high as seventy-five per cent. of his wage rate, whereas a skilled man may get only thirty-five per cent. of his. Nevertheless, the second gets more than his low-waged fellow-worker.

In this matter the Wisconsin act follows the German lead though it differs in the detail. It begins operation with each employer paying into the fund two per cent. of the wage roll of all his covered workers, while the unemployed workman receives as benefits fifty per cent. of his average weekly wage, but the maximum benefit allowed is ten dollars per week and the minimum is five dollars.

The matter of insurance being carried independently by individual industries or companies in a country where com-

pulsory insurance has been legislated is deserving of attention. It will be remembered that the British Act at one time provided that approved industries might contract out from participation in the general state scheme and acting independently make provision of unemployment benefits for its own workers. Only two industries, however—those of commercial insurance and banking—chose to set up their own funds before this clause of the act was suspended in 1921, and abolished in 1927.

The possibilities of development along this line, however, take on new significance as a result of the new Wisconsin law providing for exemption of individual employers who submit to the Commission acceptable plans of voluntary schemes satisfactorily covering their employees or who guarantee under approved plans forty-two weeks of work or wages for a stated one-year period. Furthermore, the act includes the proviso that if by the first of June, 1933, such voluntary arrangements have been made to cover as many as 175,000 workers the compulsory features of the act shall not go into effect. The Industrial Commission shall, however, continue its supervision over the voluntary plans so established. A striking feature of this—a feature that definitely puts a quietus on the activities of insurance companies in this field—is a clause which states that these exempted employers are forbidden to insure their liability to pay wages or benefits in any insurance company.

All through the Wisconsin law the individual employer is kept in sight. Nowhere is his interest submerged in the general interest. Nowhere, except in bankruptcy, is his responsibility to his own workers shifted to others. Even when he becomes a party to the general compulsory arrangements he builds up a fund primarily devoted to his own discharged men. As that fund increases in relation to the demand being made upon it, his contributions to it diminish until at the point where there is standing seventy-five dollars to the credit of each covered employee they are entirely suspended. Likewise, an element of flexibility characterizes the payment of benefits. As the amount in the fund standing against each worker drops below fifty dollars the maximum amount that shall be paid to each jobless applicant falls from ten dollars

per week down to nine, and then from nine dollars to eight, and so forth, a dollar being struck off against every five dollar per capita in the fund. Elasticity thus characterizes this latest unemployment insurance act in two ways. At no time will the fund grow very great—falling contributions prevent it: neither will it readily go bankrupt—falling benefits guard against that.

In considering any system of unemployment insurance the above points of contrast constitute important principles of difference. Should contributions and should benefits run in a flat rate or should allowances be made for wage differences? Should insurance seek to sustain life merely or should it be directed to protecting in some measure existing standards of living? Who should carry the burden? Should employers only, employers and employees, or employers, employees and state? Who should administer the fund?

It is my opinion that there are praiseworthy features in all three types. It is likewise probably true that other features might be developed, representing new points of departure entirely. The Wisconsin idea of individuation by single enterprise has great appeal in some respects—notably that of prevention—which shall be dealt with later. Judged by the principle of diversification of risk, however, any one-enterprise insurance would seem to be weak and inadequate.

Now, for the purposes of discussing the pros and cons of insurance in general it would seem necessary to have something particular in mind. I am offering, therefore, as a pattern for our thought a system with all three parties contributing and with all three likewise represented in the administrative machinery. My own picture of a properly functioning system is where public employment exchanges are closely co-ordinated with insurance and administered by the same people, and I feel that administration featuring representatives of industry and workers as well as of government would stimulate the best results with the exchanges as well as with the insurance. Labor exchanges' first function is to find jobs, only secondly to distribute insurance. I would suggest contributions, including expenses of administration, distributed fifty per cent. against industry, twenty-five per

cent. against workers and twenty-five per cent. against government. The law should make provision for differentiating between employers according to performance record. Wisconsin, I fancy, has lessons for us in this. Benefits again should not be unduly large, and a considerable waiting period without benefits should be provided. Finally, thoughtful attention should be given to defining what groups should be covered and what ones left out.

Assuming we have come to some measure of agreement on the matter of type, let us grapple with the question of unemployment insurance as such. Is it desirable or is it not? The argument from the standpoint of social justice is the first I shall discuss. I take it, though, in an audience of this kind little need be said. Modern industry is based fundamentally upon a division of labor between employers and workers. The organization of industry and the command over capital goods rest primarily with the former while the worker offers his services. Upon his ability to find a demand for those services his economic self-sufficiency rests. Greater versatility in the use of his powers and vigorous effort in making himself valuable to old employers and in seeking out new ones will doubtless assist the individual case and in some measure alleviate the social problem. Nevertheless, the problem of unemployment far outreaches any remedy available to individual workers. Its causes we have seen take us into the realm of organization of the relations between production and consumption, a realm continually disturbed by social change and mechanical invention and international policies. When the jobs do not exist the worker cannot create them. And this being so he has in justice no more responsibility for suffering from their lack than any other member of society, for example the lawyer, the doctor or college professor. If other methods better than insurance can be devised either to prevent the evil, or to distribute the burden fairly when it exists, well and good. Failing these—and up to date they are failing—the helpless worker has a claim in justice against society organized to guard him from suffering more than his due share of the burden of the thing.

For some time I have subscribed to the idea that capitalism in spite of its short-comings in some respects might be

made to provide a tolerable degree of justice between our different classes provided it incorporated (1) the principle of equal bargaining strength in wage contracts, and (2) some adequate provision for taking care of the various unforeseen calamities that visit themselves upon the worker and which lie entirely beyond his control. Such are accident, health and unemployment insurance. But, remember, in adopting compulsory insurance the state is curtailing the liberty of the individual in different ways. It is interfering with the worker in his freedom to use one fraction of his wages. It is compelling a new use for part of the employers' profits; it is adding to the general tax burden of the country. A chief reason—almost I should say the chief reason—for defending such an invasion of individual rights is that it is necessary for the sake of justice. The state stands primarily for justice and protection, and the first assumption of the advocates of unemployment insurance is that without its interference justice is not being done among the different members and classes of society. It is doubtful if, even now, at the close of two years of distressful experience, we are as a people appreciative of the full significance of unemployment. Its losses are not only economical, nor yet physiological; they are also attitudinal. A permanent "set" in the emotional nature fixes upon those who undergo continued and unmitigated disappointment in a phase of life that seems capable of social remedy. There is, moreover, a unity of life and labor. The factory links up with the home, permitting or refusing the conditions of wholesome living and happiness to the latter. It is also true that men view their governments largely in terms of the experiences they undergo in connection with their employment, and the manner in which society receives their offerings of service. Intangible oppression is likely to find outlet against something tangible.

Can essential justice be brought to our economic order through other means better and cheaper than through insurance? That is the essence of our problem. Certainly we should strive to achieve it somehow. The justice that characterizes the activities of our civil and criminal courts is bound to be an artificial thing, separate from us, with its authority derived elsewhere than from our common life, so long as we

fail to guarantee also that other justice in the workings of our social institutions.

After the question of justice comes that of expediency, and this brings us to the economics of the matter. Such questions as the following immediately confront us: (1) What would be the cost of administering insurance as contrasted with taking care of the unemployment problem in other ways? (2) What bearing, if any, would compulsory insurance have upon the amount of unemployment? Is it likely to increase it or decrease it? Does it normally give occasion for malingering on the part of workers and lack of independent self-reliance on the part of managers? Or has it possibilities for the steadying of industry? (3) Is unemployment an insurable risk, anyway? (4) How great are the constitutional difficulties under a federal system such as ours

Taking up first the question of costs. Now, strictly considered it is the duty of the economist to point out that apart from the expenses of administration insurance does not cost a people anything. The real loss from unemployment takes place in the fact of the cessation of production. Insurance, whether involving contributions from government or not, is merely a matter of distributing the burden of a loss already existing. In part it is a means of redistribution of income among persons and industries, and insofar as it makes for a fuller provision of the necessities of life to all the people it represents an increase in positive utility. Viewed in another way it is a device for distributing and stabilizing income in time, in as much as it proposes to collect premiums in larger measure in good times and pay out more benefits in periods of depression, and here again it represents no loss. Conceived thus there is surely no social cost other than that of administration. As for this, the figures indicate that administrative expenses of the British system varied from eight to ten per cent. of benefits paid during the twenties but dropped to less than six per cent. in 1931. It is scarcely to be expected, however, that Canada could do as well for some time at least.

But dropping theoretical economic distinctions and considering cost of insurance as it appeals to the man in the street, what would be the total bill for a system that would sustain the unemployed in some degree of adequate compen-

sation? With the inadequate statistics at our disposal any figures that we may suggest must necessarily be regarded as rough estimates only. The returns of unemployment sent out by the Dominion Department of Labour are far below the estimates presented by Professor Cassidy which are based upon figures obtained through the Dominion Bureau of Statistics. Probably an assumption that twelve and one-half per cent. of Canada's two million workers (outside of agriculture) are unemployed on an average, would be a workable start. Let us assume further that benefits of one dollar per day are allowed on an average. This would involve the fund in an obligation to pay out yearly \$91,250,000. Of this, according to our favored arrangement, approximately \$23,000,000 each would be provided by workers and by government, and \$46,000,000 by employers. Distributed among these totals should be added the expenses of administration. As we have seen these expenses in Britain have averaged between six and ten per cent. of benefits paid. If we allow twelve and one-half per cent. for this purpose to the proposed Canadian administrative body we would have the total obligations of the three contributors, workers, government and employers rising to \$26,000,000, \$26,000,000 and \$52,000,000 respectively. The burden of this \$26,000,000 laid against government would furthermore be distributed among the various parts within our federal system as provided in the act. Governmentally speaking this looks like a light load as compared with the appropriations for public works and relief during the past two years, these as we have noted running annually close to triple that amount. I do not pretend, however, that the provision would necessarily be adequate to deal with an extended emergency like the present. Nevertheless it is probably generous enough, anticipating as it does more than twice the percentage of unemployment than was done by the British planning. The handling of emergencies will be dealt with farther on.

Our second question is, What bearing would insurance have upon the amount of unemployment?

Any categorical answer to this question supported by evidence drawn from experience would be quite unjustified.

Many have pointed to the swelling numbers of benefit recipients in Britain during the past few years as proof of the claim that the would-be remedy has really contributed to the size of the problem. Others have denied this or have asserted that even if it were so the reason is to be found in short-comings of the British legislation. In order to make any progress toward an answer it will be necessary therefore to analyse the case and consider the argument pro and con. The assertion most frequently heard coming from the negative is that insurance is bound to cause malingering. It is a demoralizing thing to pay people for doing nothing simply because they are doing nothing. There are dangers enough from neurosis in connection with workmen's compensation and of malingering with sickness insurance, but with unemployment the moral hazards are far greater, and safeguards are harder to devise. The literature of the National Association of Manufacturers abounds with such assertions put forward as statements of fact. On the other hand, we have Sir William Beveridge with his first-hand knowledge of the British operations declaring as recently as 1930:

Administration of benefit in all its forms—standard, extended, donation—has shown the possibility through a labor-exchange system of controlling direct money assistance of the unemployed sufficiently to prevent any serious abuse. Charges that the 'dole' was helping men to live in idleness when they could get work have been made incessantly in the press, by local authorities, by public men. Whenever they have been investigated, they have been shown to be idle and irresponsible talk.

Likewise, Mary Gilson in her book on the British system, published in 1931, finds there has been very little malingering or slackening of individual effort to provide against the chances and changes of life.

While the judgment of careful students appears mainly to support these latter views one would be inclined to put his dependence upon well-guarded legislation and forceful administration rather than to rely upon frail human nature in the mass. The words of Beveridge are refreshing and should be given due weight until contradicted or qualified by impartial investigators. It should be noted, however, that one of the expressed intentions of the amendments of the British Act in 1931 was to tighten the law at this point. How much such

abuse as there has been is to be attributed to administration or legislation; how much is inherent in the principle of insurance itself is a matter of vast importance.

A second contention is that insurance increases unemployment through encouraging a dependent attitude among certain employers.

This doubtless is a difficulty harder to cope with than the other. Careful administration is no safeguard here. Remedy must rather be sought in the framing of the law itself. Possibilities of appealing to self-interest of employers through the use of differentials in rates of contribution in accordance with past performance records have been emphasized by recent students and will be tested in the Wisconsin law. How far these can be used to offset the other source of gain—that which operates through turning off men when orders are slack—has never been demonstrated. The arrangement of these differential rates first as between different industries it seems to me involves some of the most important issues in the whole matter. Is it desirable or is it not that a seasonal industry like coal mining should sustain the whole cost of unemployed miners through a very high base rate while street car motormen pay a very low rate? What is to be done with the building trades and with the logging industry? Secondly, beyond the differentiation between industries there is the necessity of making distinction between different employers in the same industry. Certainly this is promising ground and deserving of thorough investigation as to its possibilities. Enthusiasts have looked upon it as a primary means for unemployment reduction. Insurance becomes more than a device for easing the pains of a social disease; it becomes an instrument for prevention. Plainly the model in view has been the workmen's compensation arrangement with its differential rates according to the varying risk of accident in different industries. It must be admitted, however, that the analogy is not complete.

It is instructive to note that the Wisconsin law has abandoned the classification by industries entirely and has made it a matter of the individual firm. It is certainly true that great differences do exist between different firms in the same industry in this matter. It is likewise true that an employer

will have more interest in keeping down his own contribution rates than he will have in keeping down at the same time those of his competitors in his industry. The prevention motive is best served in this way. It was largely for this reason that the Commission of Governors of New York, New Jersey, Pennsylvania, etc., mentioned above were drawn to favor the Wisconsin law. The thought will doubtless occur that this motivation toward prevention would be weakened by having the workers and the state as joint contributors to the fund with the employer. In some sense this would be true but in other ways I think it would not. With workers, employers, and government all having a financial interest in keeping down employment in each particular enterprise, the result might be quite as considerable as where the employer standing alone had a larger interest in so doing. It is my belief that the prevention of a large part of modern unemployment is economic rather than industrial and for this reason government stands in a favorable position for assisting in getting results.

A third line of argument is that insurance would increase unemployment in so far as it is contributed to by employers, through its adding to the cost of production. Goods that are produced in competition with foreign wares would lose out in the competition. States that took up the burden of unemployment insurance would be at a disadvantage in the production of goods for the international market. Furthermore, in the case of commodities of elastic demand any added cost such as this would have the effect of decreasing consumption. Doubtless, in the first of these contentions, there is some merit. A nation for a time at least may be successful in international competition through neglect of, and at the expense of, its working class. Britain might have made a stronger bid for the reclamation of her markets in coal and textiles in the years following the war had she withdrawn her social insurance plans and managed to steer clear from eruptions within. All this is relative to the idea that most laudable reforms involving competitive society can best be handled on an international rather than on a national basis.

The second contention—that the increased cost would reduce consumption—is scarcely of equal merit. Inasmuch

as it would affect the immediate cost of all commodities it would operate like a general increase of wages, or perhaps a minimum wage law, the effect of which upon productivity and hence upon ultimate cost has never been capable of exact settlement.

A more important consideration and one which the proponents of unemployment insurance are fond of dwelling upon is that of the better balanced and steadier industrial effort resulting from the stabilization of purchasing power that would emanate from its adoption. For by withdrawing from use fractions of wages and profits in times of prosperity and placing them in a fund for use when work is slack, consumption, and through it production, is restrained at the one time and stimulated at the other. Economic activity is thus kept on an even keel; a prosperity reserve is created and set free automatically through the insurance principle without involving the government in cumbrous and wasteful construction plans. The reserve funds through this method flow back naturally in times of depression into the regular channels of commerce and industry stimulating production wherever they appear.

But once again is this the whole picture or have we omitted the background? What is normally done with these collected premiums pending their payment to unemployed beneficiaries? Are they really withdrawn or are they invested? If invested in stocks or bonds what happens when these stocks are sold to provide unemployment benefits? What really happens is something like this: the premiums collected pass first to the credit of the insurance fund and through it into the fixed capital of industrial concerns which for the time become in some degree the property of the fund. They are not out of use though the direction of their use is changed. They are not used for consumption purposes. Then comes the time when the stocks are sold. Money comes into the fund from various sources, mainly from people with accumulated savings who now buy these stocks and it is paid out to an idle working class who may thereby continue their buying. Only one thing is visible in all this and that is a measure of stabilization in the consumption of necessities and consequently a regularization in the demand for these. Capital in the

sense of a flow of funds is not affected in its total amount. Development of plant is in no sense restrained in time of prosperity and subsequent overproduction on that account is no less unlikely. Such a result could only be achieved through actual withdrawal of such funds from circulation and keeping them on a non-interest basis. The steadying of consumption, however, is a practical gain making for more calculable production. Depressions though occurring would not be so long continued.

One other consideration, what is going to happen to the price of these stocks and bonds when they are dumped on the market during a period of depression? The answer is obvious. It has been suggested, however, by Douglas, that they should not be sold at such times but should be held as collateral for borrowing. It will be apparent, however, that in dealings with private banking institutions such loans would necessarily be considerably below the market value of the securities at such a season. Against this it might be argued that this borrowing might give rise to a needed increase in currency and hence stimulate prices and production. All of this suggests that the employment of reserves to the credit of the fund is a subject that requires careful consideration. With judicious handling it doubtless possesses considerable possibilities for steadying industry.

Our third question is, is unemployment an insurable risk or is it not?

Much attention has been given to this by the insurance companies and their conclusion seems to be that in its entirety and without certain safeguards it is not. It is not a calculable thing; it visits whole nations at one time and hence defeats the principle of mutual support; the moral risk is declared by some of the actuarial leaders to be unusually hazardous. As we have already mentioned the efforts in New York to give life insurance companies the right to write insurance failed of their object.

But, coming to the compulsory systems, it is a commonplace assertion that the British Act was not actuarially sound. It was based on the assumption that unemployment would average six per cent. of England's workers over the trade cycle. Since unemployment has rarely dropped below ten per

cent. in any month during the past ten years, and there are few signs of an industrial revival, critics of the act have declared such optimism unjustifiable.

In order to bring out this point it will be well to inquire somewhat further into the history of unemployment insurance in Britain. Following the passage of the Lloyd George bill and the setting up of the necessary machinery, payments actually began in January, 1913. By 1920 the amount at the credit of the fund had risen to a hundred million dollars. So the scheme was looked upon as highly successful financially. In the hopeful atmosphere engendered by this success the government launched its great Unemployment Insurance Act of 1920 with its eleven and one-half million insured.

Looking back on it now, it is easy to see that unemployment insurance had never been really put to the test and that the optimism inspired by the huge balances was unwarranted. Unemployment averaged only about three per cent. in 1912 and 1913 and fell as low as one-half of one per cent. during the war, while six or seven per cent. was to have been expected had there been any period of economic stress. Then adding eight million more workers to the fund on the expectation that such a situation would last until they could pile up their reserve appears now to have been unwarranted. As it turned out the act was not in force a month before the crash came. The additional eight millions had no time to make any considerable contributions.

With the mounting tide of unemployment the reserve soon melted away. By March, 1923, the fund was in debt to government to the tune of \$85,000,000. Thereafter, for a space of two years, it improved somewhat but then turned steadily worse. By the end of 1929 it owed \$184,000,000 and to-day that figure is probably well over \$500,000,000.

Likewise the German scheme in spite of all its side arrangements for taking care of seasonal unemployment and its special provision for emergency benefits fell rapidly into debt following 1928. All the evidence seems to point to the conclusion that unemployment in its totality is a non-insurable risk at any rate of contributions that are practicable. Safety valves must be provided to take care of the emergency aspects. The British law failing to make such provision laid

upon its system the necessity of calling in the state to its rescue. The German act while fore-planning in some measure did not foresee the immensity of its present difficulty. The Wisconsin measure relies chiefly upon the principle of limited and flexible benefits, these being limited expressly to ten weeks of the year and the weekly amount going to each beneficiary falling off as his employer's reserve fund becomes reduced. This, however, it will be seen is only another way of passing the buck to the government or to charity when the big emergency comes. I think, therefore, looking at the matter both from experience as well as from theory that we are forced to conclude that insurance cannot take care of unlimited unemployment. While it has its important place in taking care of what might be termed the normal quantities of unemployment whether seasonal, technological or cyclical, it must during times of long protracted unemployment like the present be supplemented by other means. At such times the state should be expected to turn to unusual ways of organizing its resources even as it does in times of war.

Concerning the constitutional aspects of the question and how the matter should be handled in a federal state such as ours, I do not know that I have anything constructive to offer. I am not a political scientist but I may say my respect for constitutions which prevent the people from getting what they really want is not great. The functioning of democracy so shackled bears points of likeness to the aquatic performance of the little girl in the nursery ditty, "Oh, Mother may I go out to swim?" The permission is forthcoming but the water is lacking. I feel that the principal performer in bringing in unemployment insurance should be the federal government. Unemployment is more a federal matter than industrial accident. Labor mobility on a nation-wide basis, the workableness of employment exchanges, uniformity in insurance benefits, and contributions and control of immigration all suggestive of federal activity are essential to its success. On the other hand the provinces should be implicated in the system through a considerable financial stake for the problem is directly related to educational systems, child labor legislation, old age pensions, and public provision of work. The defeated bill of Senator Wagner in the United States

Congress proposing federal subsidies to approved state systems on the basis of population, appeals to me as leaving things too much at the mercy of the least progressive parts. A larger measure of centralization, and centralized responsibility would appear to be desirable.

I have covered my main points but much remains to be said. I should like to deal with the objection that Canada's population is half rural. Had we time the question of extended and emergency benefits should occupy our attention. The relation of public works to insurance might be discussed. Attention to age and sex and particularly old age and child labor, is another point. I should like to emphasize the thought that insurance is not proposed as an isolated remedy leaving out other ways of attack.

But one further matter must be mentioned and that is vocational training. The emphasis on technological unemployment particularly brings this to the centre. Some trades decaying, others rising, changes within the industry, insurance possibly assisting in "freezing" labor in outworn trades. Here is an overmanned shoe industry, here an overmanned mining industry, etc., etc. One way of mobility is more vocational training. Britain's experience with young people who have never worked and are priding themselves in a sophisticated state of inaction, points the same way. Germany has such training carried on in close connection with employment exchanges. Wisconsin adds a dollar per week to benefits where the unemployed is willing and is approved for vocational study. This is surely a good lead suggestive of vitality and improvement.

Just one word more. Mr. Frank Beer of this city suggested in a public address two years ago the need of a bureau of research on unemployment comparable to that already existing for the mechanical sciences. He estimated its cost at \$500,000 and predicted it would pay for itself many times over. In view of the millions expended since then and our hapless condition at present with the compass lost overboard I beg to point to the truth of his prophecy and heartily to second his motion.

THE ROLE OF PRIVATE CHARITY IN MEETING DISTRESS DUE TO UNEMPLOYMENT

FRANK G. PEDLEY

The principle that an individual shall not be allowed to starve appears to be admitted by all civilized nations to-day. Among partially civilized people that principle cannot be entirely accepted, for in times of famine it is inevitable that a certain number will starve, because actually there may not be enough food for all and we are informed that in countries like China and India literally millions of individuals die periodically from starvation. Western civilization, however, has developed its productive capacity to a degree where scarcity of the necessities of life is not a factor, and even in times of economic depression the problem is one of abundance rather than scarcity.

Students of political history will recall that in Elizabeth's time and even earlier, the poor of the country were divided roughly into two classes, (1) the aged and impotent sick and (2) the rogues, vagabonds and sturdy beggars. These two classes are with us to-day, but a third class has developed, largely since the Industrial Revolution, known officially as those who are able and willing to work but are unable to secure it, and to-day this class outnumbers the other two.

In Elizabeth's time it is doubtful if there was any serious lack of work. The legislators of that time, it is true, did make provision for supplying work to those who professed inability to find it, and the legislation of 1576 required cities and corporate towns and market towns to keep a "stock of wool, hemp, flax, iron or other stuff" to be worked by the needy who were able to work. In general we gather that in those days an able-bodied unemployed man was the object of suspicion and liable to severe penalties. Whipping and branding through the ears were popular sentences, but imprisonment and even death were sometimes incurred. There was no thought then of keeping able-bodied men in idleness; to-day we are confronted with the paradox that it is cheaper to keep a man than give him work.

Our attitude towards the sick and work-shy is still somewhat Elizabethan. A certain measure of sympathy is extended to the sick, but we still believe that short shrift should be given to the rogues, vagabonds and sturdy beggars. Many of us now, however, are beginning to wonder whether society has not some responsibility in the creation of these undesirables. If we accept the view that heredity and environment determine character, there may be a good deal of truth in the old aphorism which Robert Owen was fond of enunciating that "a man's character is made for him not by him". However, a discussion of this doctrine would take us into the realm of philosophy and from the solid ground of practical life. Certain it is that the average citizen, while professing sympathy for the destitute sick and aged, is intolerant of the loafer and in that respect his viewpoint is entirely Elizabethan.

The unemployed individual, who is able and willing to work, appears to be the product of a highly efficient productive system and a grossly inefficient economic system. It is this class that we are discussing to-day. In our armchairs, after a good dinner, we may expand somewhat on the danger of allowing the doctrine to thrive that the state owes a man a living, but even the most hardened industrialist believes that, if a man is able to work and unable to obtain it, he and his family should be supplied with sustenance. The acceptance of this proposition is in a measure a repudiation of the doctrine of stark individualism and represents a stage in our emergence from the jungle, where the law of the survival of the fittest reigns supreme. The acceptance of this proposition is, too, a recognition of the community's responsibility in the alleviation of destitution, particularly that destitution which is the direct result of great forces beyond the power of the individual to control.

It would seem that when a service is accepted as necessary it should follow a corollary that the expense for it should be equitably distributed. This means, in effect, that the money should be raised by taxation and not by voluntary donations. As well ask the Canadian Medical Association, from funds raised privately, to care for the wounded of the war, as to ask private charitable organizations to assist the casualties of a badly functioning economic system. This line

of reasoning, which appears unanswerable to most social workers, has been accepted by the powers in control in Canada, and we have the various federal unemployment relief acts, which practically guarantee that no one in Canada shall be allowed to suffer hunger and exposure on account of unemployment.

Most of my hearers will probably agree with me that the relief of destitution from unemployment is a necessity and should be paid for from public funds, but on the question of administration a considerable divergence of opinion may arise. There are those who believe that government funds should be administered by the government, while others are of the opinion that the government will almost inevitably mismanage its activities and should, therefore, relegate as much of its work as possible to private organizations. It would seem logical to say that the administration of the funds should be placed on the organization best qualified to administer them and this might lead to the conclusion that the voluntary organization is the one most likely to carry the matter through honestly and efficiently. But although the administration of public relief funds by private charitable agencies may, in the first place, result happily, experience has taught social agencies to beware of accepting large grants from governments. Perhaps the most fundamental objection to the practise is the fact that public money is turned over to a group of irresponsible persons, but other objections from the standpoint of the private agency occur and these have been laid down by a special committee of the Family Welfare Association of America as follows:

(1) The still greater emphasis thus put upon one central relief fund in the hands of a private agency, with an increase of demands from the community, may result in the drying up of voluntary services, which are regarded as important.

(2) The grant may not be large enough to cover the responsibility assumed. This is very frequently the case. For example, the government, in asking a private agency to do its work, may expect that agency to cover the administrative costs, and this puts the agency in a difficult position, for it is easier to collect money for the direct relief of suffering than for administration costs.

(3) There may be strings attached to the grant which opens the way to political interference.

(4) In making a contribution for the expenditures of which they are not responsible, the public authorities may not retain the same

continuing sense of obligation as they might feel if a public agency had been created. In this way it might be easier suddenly to cut off an appropriation to a private agency than to abolish a public department.

(5) Large grants from public sources are apt to prove a handicap to the other money-raising efforts of the private agency.

This committee, therefore, is of the opinion that where the community is able to support a public agency, the private agency should accept a subsidy only as a temporary step in a clearly understood plan for the later development of a public department. Broadly speaking, private philanthropy regards its function as trail-blazing. It demonstrates the need and expects the state to accept the task when the need has been proven. It is assumed that in the matter of the relief of unemployment the need has been proven and it is the opinion of many experienced social workers that the community should organize a public department for the purpose of supplying it.

In the present emergency the general plan initiated by the Dominion government, whereby it accepts a measure of responsibility in the present situation, may be considered satisfactory. It would seem advisable, however, to have a greater uniformity of operation throughout the country. Some figures published in *Child and Family Welfare* (January, 1932) illustrate the point I am trying to make. For the nine months' period ending September 23rd, 1931, the city of Montreal spent for the direct relief of unemployment 84 cents per capita of the population. During the same period Toronto spent \$1.37, Hamilton, \$2.63 and Winnipeg \$6.81. The proportion of families on relief to the total population did vary slightly in the different cities, but not sufficiently to account for the great difference in relief expenditures.

Evidently the practice in giving relief varies considerably throughout the Dominion. It cannot be argued that Montreal spent too little or Winnipeg too much, for no standards have been set to guide us in estimating the optimum expenditure per family per week. This marked variation in the dispensation of relief was to a considerable extent at the expense of the Dominion government. That is to say, the federal government was paying a share of relief costs in different parts of the Dominion without having any real control of the adequacy or inadequacy of relief. I believe there can be no argument that this state of affairs is satisfactory.

It cannot be asserted that the United States has made a better job of its relief program than Canada. There is certainly less uniformity of practice there than here since the government at Washington has refused to participate in the relief program. However, the plan adopted by the State of New York appears to have considerable merit and is worthy of note in passing. In September, 1931, at an extraordinary session of the state legislature, a temporary emergency relief administration was created consisting of a commission of three members appointed by the governor. The commission was given authority to spend thirty million dollars to assist counties and municipalities in providing relief directly or by public works. One of its first acts was to appoint, as executive director, a man who for years had occupied a leading position in social work. A rapid survey of the needs of the state was made and standards were set up to which counties and municipalities had to subscribe before they could receive state aid.

The New York state plan established certain principles which appear to be entirely reasonable, namely expert control, planning, and uniformity. It would seem advisable for the Dominion government in Canada to adopt some such principles, since the unemployment situation has extended beyond an emergency period and promises to be with us for some time yet.

Thus far my remarks have dealt with the alleviation of physical distress due to unemployment, and to some it might seem that the provision of food, fuel, shelter and clothing should answer the requirements of those in need. The relief of distress due to unemployment, however, is not as simple as that. The unemployed have other needs, which are not as apparent, but which are in some respects quite as important as the basic requirements of food and shelter, for it is more than physical breakdown which is to be feared. Withdrawal of occupation not only results in loss of income, it results in loss of self-respect, skill and the desire to work. All these things combine to produce a general lowering of morale, the final result of which is unknown, but which can hardly fail to be unfavourable from the standpoint of the individual, and the state as a whole. It is not to be expected that any prac-

ticable social activity can counteract entirely these undesirable results, but social workers are of the opinion that a partial neutralization may be affected.

With respect to the family situation, which may be precipitated by a period of unemployment, the private family agency may be able to render a service which it might be difficult for a public agency to do. All sorts of domestic difficulties may arise when the bread-winner is at home all day and harassed with financial worries. These difficulties may be ironed out sometimes by a trained and sympathetic worker. Problems of delinquency arise which call for outside assistance and various preventive activities, commonly referred to as "character-building services," may be organized.

Here, it would seem, lies the field of private effort. Here, is an experimental realm which private philanthropy regards as its own. As instances of what private agencies may do some of the activities organized and carried out in Montreal last winter may be cited.

A registration of unemployed boys was undertaken by the English-speaking groups and an effort was made to associate these boys with certain institutions and group activities. Some of the boys were offered night school courses so that they might improve their chances of employment when jobs became more plentiful. Over 1,000 English-speaking boys were registered in this way and unquestionably valuable results were achieved.

A special registration bureau for office workers was set up, and a lecture course lasting throughout the winter was offered to those registered. The attendance at the lectures averaged over 100 and the interest shown indicated to those responsible that the effort was well worth while.

For the large hordes of homeless men of the labouring class the city had established a refuge where meals and sleeping accommodation could be secured, but no provision was made for shelter during the day. This group was faced with days and weeks of idleness on the streets in all sorts of weather and under the most demoralizing conditions. To meet this situation a recreation centre was set up by a private committee. Several games rooms, two libraries, and a theatre, engaged the attention of most of the men, but some three or four hundred attended formal classes in English,

French, Arithmetic, Bookkeeping, Shorthand, and Automotive Engineering. This refuge was usually patronized by from four to five thousand men daily and appeared to meet the particular need fairly satisfactorily.

Distress among women has always been less apparent than among men, but nevertheless the numbers of women in need of relief last winter was considerable. Special arrangements to occupy the time of these women were provided, for the most part in one of the large women's institutions.

Now that summer has arrived, a project is under way to secure land for gardening purposes. A considerable number of married men have applied for allotments and it is hoped in this way to occupy the time of the men during the summer months and at the same time secure to their families a supply of fresh vegetables.

These are but instances of what private philanthropy may do in this unemployment crisis. That which is experimental, which, perhaps, is not universally accepted as necessary, seems to fall logically to private philanthropy; but that which is necessary and inescapable, should in all fairness be placed upon the common shoulders.

It would be improper for me to close these remarks without again asserting that all the things referred to are at best palliative and do not get to the root of the trouble. The only real cure for unemployment is employment, not employment on unnecessary made work, but employment in useful productive enterprises which affect the common good. The solution of this problem is in the hands of economists, sociologists, and legislators, not in the hands of social workers. It is for the last to indicate the problem and for the first three to find the cure if one is to be found. Until a cure or remission occurs it does not seem too much to say that, within the economic capacity of the nation, relief measures should be as generous and as adequate as possible. As Mr. H. L. Lurie has well said:

Relief does not deal with the causes of unemployment, it is true, but the refusal to aid the distress of the unemployed through relief measures cannot, under any circumstances, improve the fundamental economic situation. Such refusal merely adds the sin of inhumanity to the vices of social incompetence. We should not, therefore, acquiesce in a program which seeks to determine how little may be done for the unemployed, but should press for a maximum relief program.

UNEMPLOYMENT—DISCUSSION

L. C. MARSH.—There are two lines which comment on this paper on the extent of unemployment in Canada, 1922-32, might take. There are the implications of these figures, in the sense of the need for organised relief measures and serious concern for their improvement, which they indicate. Even if the limits of error are wide, the lack of employment by more than a quarter of our working population is a social problem of the first magnitude. And whatever the limits, also, there is no question that the magnitude of the increase in the numbers unemployed since 1931 is in the hundreds of thousands. Partly for reasons of time, however, and partly because these aspects have received treatment in this morning's session, I will confine myself to the second approach, the interpretation and validity of these figures.

If I am expected to play the rôle of critic in this field, however, I feel distinctly handicapped, for three reasons. The first is that I have attempted similar estimates myself and have thus become aware of the difficulties and possibilities of error that attend them. The need of such estimates is so great, however, that we should be grateful to the compilers for having ventured them in face of these difficulties. The second is that the compilers themselves have been so careful to explain the assumptions and limitations of the figures that they leave little to add. The third is that such modifications as suggest themselves do not seem to affect in any drastic manner the magnitude of the figures. Provided it is remembered what they cover, the general figures are not unacceptable.

The two basic elements in the compilation are (a) the estimate of the total working force, both at a base-date and for later dates, and (b) the firms (not always the same) as the main guide in estimating fluctuations in unemployment. The evidence is, I think, that the employment index is reliable, certainly in the aggregate for the Dominion as a whole. It is well representative, though with variation as between particular groups, and its general coverage is wider than that of the corresponding index in the United States. The main assumption in its use is really that the smaller firms, and those who do not happen to report on particular dates, follow the same trend as those who do, and we have no substantial evidence that this is not so. At the point, however, where the moving estimates are made by applying the apparent percentage reduction in employment to the working force, a little more detail as to method is perhaps desirable; the precise implications of this type of calculation seem to be worthy of a little more investigation. There is a possibility, too, that for 1932 at least the indices, based on 1926, may be less reliable than for years closer to the base.

But it is the estimate of the working force which contains the larger number of uncertain elements, both initially and in its changes over succeeding years.

Firstly, it is perhaps worth while remembering that if we try to take all "unemployed" into the count by adding a residual percentage even

at the peak, we are liable to include at least some of the more irregular workers who are dubious "unemployed". Unless two per cent. is a large underestimate, indeed, it may include some "unemployables". At the least, the point seems worth while noting in the event of the estimate of numbers unemployed being applied in the consideration of an insurance scheme.

Perhaps the point is of more importance in relation to the estimates for separate industrial groups. The addition of residual amounts for these separate groups is surely more dubious in view of the mobility or occupational fluidity which characterises the Canadian labour force, and particularly the unemployed residuum. Part of them would certainly be a "reserve" or "residue" for a number of industries, and it would seem that there was some danger of double counting here. The point can be put in another way if we look at some of the percentage figures for industrial groups when we have regard to the seasonal character of the industry and the mobility of the workers who man it. What meaning, for instance, are we to attach to a figure of 69 per cent. of unemployment in the logging industry?

There is a possible test which goes part of the way towards indicating the "range of error" in this compilation. That is that the methods employed should be applied to the Dominion working-force estimate and the employment index for all industries, and that the figures thus obtained should be compared with those which have been presented, i.e., the estimates obtained by aggregating the separate figures for the eight industrial groups. Probably, however, this was tried in the compilation of the estimates.

Another point of which I am not sure whether the authors of the paper took account, arises in connection with the figures for the construction industry. In recent years the indices of employment have certainly been artificially swollen by the inclusion of a good deal of construction which is really relief work, designed to take care of unemployed workers from various industries. This must distort the unemployment percentages for construction and also the figures for the relative distribution of unemployed workers among the different industrial groups. We should certainly not be justified in regarding the estimates presented as an indication of the true unemployment risks of building workers from cyclical causes.

Probably these few suggestions do not threaten seriously the general validity of these compilations. Certainly they are more acceptable than some of the crude and partial estimates which have been made. I would say this, however, only if it is made clear what groups and types of unemployed are presumably covered by these figures. If they seem large it has to be remembered that they include female employees and juvenile workers as well as adult males; they include possibly some of the fringes or lower grades of the unemployed; and they cover not merely cyclical or depression unemployment, but seasonal unemployment and what is usually called "technological unemployment" as well. They include, that is to say, certain groups who are very often not thought of when esti-

mates are made by or for the man in the street; and, incidentally, they are certainly not the range of unemployed covered by relief, whether we mean by that the existing measures or a possible unemployment insurance scheme.

If I have any doubts which are not assuaged by these considerations, they are for the figures for 1932. Our existing indices point to heavy increases over 1931, but the accretions suggested in these estimates are really startling. It is particularly difficult to estimate the potential working force with any reliability in these years, yet this affects very much the estimate of the numbers unemployed arrived at. The size of the figures alone surely warrants some inquiry into the validity of the results at this point.

Apart from these details, I have two general points. The first is that the estimates should be presented in the form of a range, or else in round figures. It is not merely that we cannot expect to estimate in hundreds, or lower integers. The number of workers with no regular occupational attachment prevents any such degree of detail. The figures would gain in accuracy, paradoxically, by being roughened. And furthermore, we can surely take 1000's or more, as our units, if we are interested in the figures from the point of view of relief plans.

The second point is of more consequence. It is the need, in unemployment measurements, for pooling all our information; having due regard to the definitions and limitations of each set of figures, but examining as far as possible the extent to which they agree or dovetail, or at least indicate the range of accuracy to be expected. The trade union percentages, the Dominion Employment Service statistics (whether as absolute figures, such as the "numbers remaining unplaced," or as indices), and such Unemployment Relief Act statistics as there are, all have their special difficulties, but we cannot afford to ignore them. So far as the 1931 Census figures are concerned, I know that the authors of the paper have been as anxious to use them as myself. I am thinking of the preliminary unemployment compilations which have been made, rather than the fully extended tabulations, which latter of course cannot reasonably be completed for some considerable time. It is true that no figures are more likely to be misused—and, indeed, to be depressing—than unemployment statistics, but it would be unfortunate if this prevented their being available at the earliest possible moment to those competent to use them, and for the purpose of verifying and supplementing our existing information and the guesses we are compelled to make.

One general implication which follows from this paper, should perhaps be referred to. That is that there is gain, not loss, in attempting to measure our problems. The view is only too prevalent that a problem is half solved if it is hidden from the light. It would be nearer the truth to say that facing the facts as far as we can and increasing the accuracy of our knowledge takes us half-way to solution. Relief organisation in European countries has been relatively more effective—whether we care to compare it with this continent, or with pre-war periods—not only because needs have forced it. In part at least it is because those countries

have measured their problems of unemployment. To put it in another way, the necessity of making estimates efficient enough to produce adequate statistics of its operations, or else that we are not using them: to which we are working in the dark.

Whatever the degree in which it is regarded as emergency or temporary or desirable, we have been developing in the last two years something of a Dominion-wide organisation of unemployment relief. The corollary to what has been said is that the need for the documentation of unemployment relief must be widely realised. I mean the measurement of the character and incidence of unemployment, the extent of types of unemployment, relieved and unrelieved, and indications of the adequacy of relief as well as the purely financial aspects. I do not say this in ignorance either of the difficulties of securing statistics or of the efforts of administrators, from federal departments downwards. But I think it is fair to say that, particularly by the local agencies and areas, an insufficient appreciation of the value of uniform and informative statistics is only too often evident. Yet statistics very soon change from the stage at which they are time and trouble to that in which they are just good habits. If the compilations we have presented lead to greater efforts in the field of registration and the statistical side of relief work in general, solely by test—or even to refute—the estimates made, the authors of this paper will be doubly deserving of gratitude.

THE PROBLEM OF A COMMONWEALTH TRIBUNAL.¹

ROBERT A. MacKAY.

At present there exists no adequate means for the judicial settlement of disputes between the units of the British Commonwealth of Nations. No member has any right of suit against any other,² whether before a court within the Empire or without.³ Arbitration was attempted in the matter of the boundary between the Free State and Northern Ireland,⁴ but without success. In any case from the point of view of constitutional law it is doubtful if the award of an arbitral tribunal, even if the parties agreed in advance to accept the award, would legally bind the parties, except by statute of the imperial parliament. Certain disputes, as for example the Labrador-Canada boundary,⁵ have been settled by reference to the Judicial Committee of the Privy Council which is required by statute to give an opinion on a question referred to it by His Majesty in Council.⁶ The normal procedure is for the parties to petition for the reference or at least consent to the referen-

¹ Since this paper was written Mr. Hector Hughes' interesting book, *National Sovereignty and Judicial Autonomy in the British Commonwealth of Nations* (London: P. S. King and Son, 1931), has come to hand. It differs radically from this paper on the fundamental issue of sovereignty in the British Commonwealth. Students of the subject are urged to consult it as typical of the views of the Free State.

² Sir William Harrison Moore, "Suits between States within the British Empire," *Journal of Comparative Legislation and International Law*, 3rd Ser., Vol. VII (1925), p. 155 ff; T. Baty, "Structure of the Empire", *ibid.*, Vol. XII (1930), p. 157.

³ In their accession to the Compulsory Jurisdiction of the Permanent Court of International Justice, the members of the Commonwealth (except the Free State) reserved disputes *inter se*. *British Parliamentary Papers*, Cmd. 3452, 1930.

⁴ Northern Ireland refused to appoint an arbitrator or to co-operate. A. B. Keith, *Responsible Government in the Dominions*, (2nd ed., Oxford: The Clarendon Press, 1927), p. 43.

⁵ 43 Times Law Reports.

⁶ The Judicial Committee Act, 1833, *Statutes of the United Kingdom*, 5 & 6 Wm. IV, sec. 4.

dum.⁷ But there is little doubt that an opinion on such a reference is anything more than an advisory opinion, unless, of course, it is ratified by an imperial act.

There are, however, serious objections to using the Judicial Committee, at least as constituted at present, as an intra-commonwealth tribunal. The Judicial Committee is an imperial court constituted by the British parliament, and heavily weighted with British members. Technically, references of the nature discussed above may be made only by the British government, and not by dominion governments. It smacks, therefore, of pre-commonwealth days when inferiority, not equality of status, was the rule. These defects might of course be removed and the Judicial Committee reconstituted through reciprocal legislation by all members of the Commonwealth, but there still remains a vital objection to its use for the settlements of disputes between governments. It is an appellate court for a wide variety of private cause which cannot easily be put on other existing courts. Sound practice is against combining in the same court the power to hear causes between private persons and between states.⁸ Separation of function between different courts would seem to be needed.

Special provision for the settlement of intra-commonwealth disputes has long been mooted,⁹ but the question has only recently become a practical issue. In point of fact disputes between the dominions have been almost non-existent

⁷ When in 1885 the Canadian Government demurred to the proposal of the British Government to refer a dispute between the Dominion and British Columbia, the reference was not made. Keith, *op. cit.*, p. 1007.

⁸ Exceptions are (1) The Supreme Court of the United States and (2) The High Court of Australia, both of which may hear controversies between states of their respective Unions and cases between private persons and (3) the defunct Central American Court of Justice which could hear suits by citizens of one state against another state, a defect which obviously helped to bring about its breakdown: See A. S. deBustamante, *The World Court* (London: Macmillan, 1925), p. 68 ff. Care was taken in framing the Statute of the Permanent Court of International Justice to restrict its jurisdiction to suits between "States or Members of the League of Nations" (Statute 7, Art. 34). *Ibid.*, p. 179 ff.

⁹ A. B. Keith, *Imperial Unity and the Dominions* (Oxford: The Clarendon Press, 1916), p. 388.

due largely to the isolation of the dominions from each other. Differences between Great Britain and one or other of the dominions have, of course, been numerous, but with few exceptions these have revolved around the question of dominion autonomy. Such questions concerned the custom, not the law, of the constitution and were normally settled on the basis of political expediency rather on a basis of preexisting rules. They were thus quite unsuitable for submission to an arbitral or judicial tribunal.

Recent developments have altered the situation. The growth of intra-commonwealth trade and communications have brought the dominions into closer contact with each other, and already numerous trade agreements are in existence. The participation of the dominions in multilateral international agreements has also raised serious questions as to intra-commonwealth relations. Through membership of the dominions in the League of Nations disputes between members of the Commonwealth may possibly be brought before the League for settlement.¹⁰ In 1929-30, the members of the Commonwealth adhered to the optional clause of the Statute of the Permanent Court of International Justice. All members except Ireland, however, reserved from the compulsory jurisdiction of the Court disputes *inter se*. In doing so they undertook that all such disputes "shall be settled in such manner as the parties have agreed or shall agree."¹¹ And finally at the Imperial Conference of 1930 it was agreed by the representatives of six of the seven governments to recommend to their respective parliaments the adoption of the General Act for the Pacific Settlement of International Disputes now before the League, excepting again disputes *inter se*.¹² These

¹⁰ See discussion in P. J. N. Baker, *Present Juridical Status of the British Dominions* (New York: Longmans, Green Co., 1929), p. 305 ff.

¹¹ *British Parliamentary Papers*, Cmd. 3452; see also Royal Institute of International Affairs (edited by J. W. Wheeler-Bennett), *Documents in International Affairs* (London: Oxford Press, 1929), p. 38 ff.

¹² Imperial Conference, 1930, Part I, *Summary of Proceedings* (Ottawa: King's Printer, 1931), p. 36. South Africa refrained not because opposed to the General Act but with a view to a more extended study of the Act.

events have raised a rather absurd situation. As respects disputes between a member of the Commonwealth and other states elaborate provision for settlement has been made in advance; as respects disputes *inter se*, the members have specifically undertaken by treaty with other members of the Court that such disputes shall be settled, but no adequate provision has yet been made toward this end.

More important in raising the need for an intra-commonwealth tribunal have been the recent constitutional changes. The abolition of the "veto" powers of the Crown by any dominion on its own motion, the repeal of the rule of non-repugnancy of dominion legislation, and the grant of extra-territorial powers of legislation have profoundly affected intra-commonwealth relations.¹³ These changes mean in effect that the legislative relations between Great Britain and the dominions are now to all intents and purposes those which exist between sovereign states. It is not proposed, however, to destroy the uniformity of law on specific subjects which has existed throughout the Empire by reason of the superiority of the British parliament; it is proposed that the same ends shall be reached by agreement and reciprocal legislation between the members of the Commonwealth. Merchant shipping is a case in point. Hitherto uniformity was reached by imperial legislation. Under the Statute of Westminster¹⁴ each dominion has complete jurisdiction over all ships, including ships of its own registry, and other British Commonwealth ships, which enter its waters. Under the British Commonwealth Shipping Agreement signed by Great Britain, all the dominions, and India, on Dec. 10, 1931, it has been agreed that there shall be uniformity of treatment in certain laws relating to merchant shipping throughout the Empire. The agreement is to last five years and thereafter until any government gives notice of withdrawal therefrom or from any article thereof. However necessary the change from a political point of view, it can hardly be productive of the millenium in intra-commonwealth relations. Under the old régime shipping was

¹³ *Ibid*, pt. vi.

¹⁴ *Statutes of the United Kingdom*, 22 Geo. V, chap. 4, sec. 5.

regulated by law emanating from one authority, the imperial parliament, and as such enforceable by the courts throughout the Empire. Under the new régime it will be regulated by laws emanating from seven different parliaments, and the only assurance of uniformity is an agreement between governments which is not enforceable in a court of law. It is too Utopian to expect that seven different governments responsible to seven different legislatures which in turn are elected by seven different electorates each affected by national self-interest, will always see eye to eye as to the meaning of this agreement, or as to their rights and responsibilities thereunder.

To be more specific, one may take, for instance, Article II which states:

While each part of the British Commonwealth may regulate its own coasting trade, it is agreed that any laws or regulations from time to time in force for that purpose shall treat all ships registered in the British Commonwealth in exactly the same manner as the ships registered in that Part, and not less favourably in any respect than ships of any foreign country.

It is not difficult to anticipate differences of opinion arising under this article of the agreement, under a complaint from a ship-owner from one part of the Commonwealth of unequal treatment by another part in respect to one of his ships. And shipping is only one of several subjects of common interest now covered by imperial legislation which will shortly be regulated by agreement and reciprocal legislation. Trade agreements between members of the Commonwealth offers another, and perhaps a more fertile field of controversy. Intra-empire trade is likely to be promoted, if at all, primarily by special agreements between governments. Already a number are in existence. Yet there is no reason to believe empire trade agreements will be sacred in party politics, as witness New Zealand butter. However friendly relations may be between member states of the Commonwealth, and no matter how great regard is paid to mutual good faith, the situation contains grave possibilities of disputes.

Realizing the implications of these changes the Conference of 1929 recommended an intra-commonwealth tribunal.

The Conference of 1930 investigated the proposal further and reached the following conclusion:

(1) Some machinery for the settlement of disputes *inter se* the Commonwealth was desirable but *ad hoc* arbitral procedure was preferable to a permanent court.

(2) "In the absence of general consent" to "obligatory" jurisdiction "voluntary" jurisdiction should be adopted.

(3) As to the competence of such a tribunal it was agreed that it should be limited to "differences between governments", and to such differences as were "justiciable".

(4) A tribunal should be constituted *ad hoc* for each dispute to be settled. It should consist of five members, all drawn from the British Commonwealth of Nations, each party to nominate two, one a distinguished jurist from a state member of the Commonwealth not a party to the dispute, and one with complete freedom of choice. The four thus appointed should select a fifth as chairman.¹⁵

The incompleteness of the whole agreement, the timidity with which the whole question is approached, are in marked contrast to the boldness of the Commonwealth in respect of the Permanent Court of International Justice and the General Act for the Pacific Settlement of International Disputes. Why should the Commonwealth prefer *ad hoc* arbitral procedure in the case of disputes *inter se* and yet subscribe so readily to permanent institutions for the settlement of disputes with foreign states? Why should it hesitate to adopt compulsory jurisdiction in disputes *inter se*, when it has adopted it in respect of the Permanent Court? What does the Report mean by "justiciable" issues? What body of law is a tribunal so constituted to apply? All these questions deserve consideration.

Firstly, as to *ad hoc* arbitral procedure rather than a permanent court, the Report itself suggests that it was "in order to avoid too much rigidity". Further "the Conference thought that this method might be more fruitful than any other in securing the confidence of the Commonwealth." There is widespread apprehension throughout the Commonwealth of any-

¹⁵ Imperial Conference, 1930, *op. cit.*

thing which would tend to stereotype the *status quo* in constitutional matters. Dominion status is the fruit of constitutional flexibility. While it would seem that constitutional evolution is now virtually complete there is no assurance that this is the case, hence the aversion to hindering possible future developments. A permanent court would undoubtedly tend to legalize the existing constitution more than would temporary tribunals.

The same considerations apply to compulsory as opposed to optional jurisdiction, perhaps with more force. Compulsory jurisdiction might easily become a means of settling by judicial process questions which are essentially political in character with the consequent diminution in the flexibility of intra-commonwealth relations.

As to the meaning of the term "justiciable" differences, the Report of the Imperial Conference is completely silent, and perhaps wisely so. In a formal sense the term has been given meaning in municipal law by centuries of litigation and by legislation, and in international law by various treaties,¹⁶ but it is constantly subject to new limitations and new extensions by statutes within the state and by treaties without. But experience within the state or in international relations is not necessarily a safe guide as respects intra-commonwealth relations, since legally and psychologically the relations between members of the British Commonwealth differ both from relations between natural persons and relations between independent states.¹⁷ Had the Conference therefore attempted a definition of the term "justiciable" it would have been compelled virtually to make one out of whole cloth, a dangerous expedient and one contrary to the genius of the commonwealth constitution.

¹⁶ The Optional Clause of the Statute of the Permanent Court of International Justice obviously constitutes a list of justiciable questions so far as members who have accepted the Clause are concerned.

¹⁷ "If I may put the matter in one short sentence, I would say that the common allegiance to the Crown prevents the relations between the different communities of the Empire from being international relations," Sir Cecil J. B. Hurst and others, *Great Britain and the Dominions* (Chicago: University of Chicago Press, 1928), p. 55.

We come now to the final question, what law should a commonwealth tribunal apply? This is the very crux of the whole question. In their relations with foreign states the dominions have undoubtedly acquired an international personality,¹⁸ and as such are subject to rights and duties in international law.¹⁹ But in intra-commonwealth relations they stand upon a different footing. As far as the law of the constitution is concerned, the dominions cannot be said to have acquired international personalities. They are rather dependencies subject to the legislative supremacy of the imperial parliament and united under a common Crown.²⁰ In their relations with each other, or with Great Britain or vice versa, constitutional law does not recognize that they are bound by international law at all since their relations with each other are domestic relations and not international relations.²¹ Nor has constitutional law ever matured to the point where it places rights and duties upon the dominions in their relations *inter se* or in their relations with Great Britain or vice versa.

¹⁸ Cf. Baker, *op. cit.*, p. 343; Hurst, *op. cit.*, p. 92; P. E. Corbett and H. A. Smith, *Canada in World Politics* (Toronto: Macmillan, 1928), p. 56; Moore, *op. cit.*, Vol. VIII (1926), p. 21 ff.

¹⁹ An interesting example is the I'm Alone case which arose out of alleged violation of the Treaty of 1924 between His Majesty in respect of the whole Empire and the United States. Representations were made by the Canadian government through the Canadian representative at Washington and negotiations took place between the American and Canadian governments directly. The United States would thereby seem to have tacitly agreed that Canada possessed rights under the treaty. Again the dominions apparently could be parties to disputes before the Permanent Court of International Justice though probably not in disputes between themselves. Cf. Baker, *op. cit.*, p. 326; Keith, *Responsible Government*, p. 887.

²⁰ This is in strict law only, and not of course in convention. The passage of the Statute of Westminster cannot be held to have altered this unless parliament is deemed thereby to have abdicated. This seems to me a very doubtful interpretation. The question is whether parliament could or could not, technically speaking, repeal the statute, and if it did whether the courts would not consider themselves bound by such repeal.

²¹ On this leading authorities seem agreed. Cf. Keith, *Sovereignty of the Dominions* (London: Macmillan, 1929), chap ix; Baker, *op. cit.*, p. 289; Hurst, *op. cit.*, p. 51; also W. Y. Elliott, *The New British Empire* (New York: McGraw-Hill, 1932), p. 62.

Two illustrations will suffice. Constitutional law imposes no obligation on say Canada to use due diligence in protecting residents who are nationals of Great Britain, of the Irish Free State or of any other part of the Commonwealth or of the dependent Empire as there is in the case of sovereign states as respects resident aliens.²² Again an agreement between members of the Commonwealth would not appear to give rise to any legal rights or obligations as would a treaty between sovereign states.²³ The Land Annuities Agreement between the government of the Free State and the government of Great Britain is a case in point. In denying that there is any legal obligation on the part of the Free State to carry out this agreement Mr. deValera's government appears to be on sound technical grounds.

In this respect the constitution of the British Commonwealth is in direct contrast to the constitution of the United States. The latter lays specific obligations upon member states of the union in their inter-relations, as for example, interstate rendition of persons accused of crime.²⁴ It permits agreements between states with the consent of the United

²² The classic example of this situation is the illegal deportation by the South African Government of British labour agitators. Keith, *Responsible Government*, pp. 200, 1109.

²³ The registration by the Free State with the League Secretariat of the so-called "treaty" between Great Britain and the Free State might appear to invalidate this statement, but the incident was irregular. In any case it was protested by the British government but the Secretary-General declared he had no option in the matter. No intra-commonwealth agreement appear to have been registered since, even agreements to which the Free State has been a party. Cf. Baker, *op. cit.*, p. 305. As respects the application of multilateral treaties assented to by the various members of the Commonwealth two methods have been adopted: (1) the insertion of a special clause exempting intra-commonwealth relations; (2) acceptance of the treaty in the name of the King, rather than in the name of a government. This latter procedure was agreed to at the Imperial Conference of 1926 in order to obviate the insertion of the special clause. A full discussion is given in Baker, *op. cit.*, p. 289.

²⁴ Constitution of the United States, Art. iv.

States,²⁵ which agreements are undoubtedly binding in law,²⁶ and it specifically provides for the settlement of disputes between states by the supreme court of the United States,²⁷ which gives rise to the assumption that their relations are governed by law. The fundamental difference appears to be the doctrine of sovereignty. The states began with the assumption that they were sovereign, though certain sovereign powers were transferred to the United States, which also within its field was a sovereign authority.²⁸ Political developments have made state sovereignty the merest fiction; the law, however, has retained it as a working principle. The dominions on the other hand began as colonies. Political developments have made them in fact far more independent than American States; but the law still retains the doctrine of dependancy.

Intra-commonwealth relations differ also from the relations between the states of Australia. Without raising the troublesome question of sovereignty the Commonwealth Act provides for compulsory jurisdiction of the High Court, not only in disputes between a state and the Commonwealth over legislative jurisdiction, but "in all matters . . . in which the Commonwealth is a Party," or "between the States."²⁹ The term "matters" has been defined by the Court as equivalent to

²⁵ *Ibid.*, Art. i., sec. 10.

²⁶ *Virginia v. West Virginia*, 246 United States Reports 566.

²⁷ Constitution of the United States, Art. iii, sec. 2. See also J. B. Scott, *Sovereign States and Suits before Arbitral Tribunals and Courts of Justice* (New York: New York University Press, 1925). Dr. Scott enumerates 52 cases of suits between states of the American Union before the Supreme Court up to 1924.

²⁸ ". . . reference has been made to the political situation of these states, anterior to its formation. It has been said that they were sovereign, were completely independent, and were connected with each other only by a league. This is true." Marshall, C. J. in *Gibbons v. Ogden*, 9 Wheaton 1, 187. "In America, the powers of sovereignty are divided between the Government of the Union, and those of the States. They are each sovereign, with respect to the objects committed to it, and neither sovereign, with respect to the objects committed to the other." Marshall, C. J. in *McCulloch v. Maryland*, 4 Wheaton 316, at p. 405.

²⁹ *Statutes of the United Kingdom*, 63 & 64 Victoria, chap. 12, sec. 75, 78.

questions litigable between private persons,³⁰ a definition which would seem to give the states and Commonwealth a quasi-corporate status.³¹ It permits, moreover, of the application of municipal rather than international law to their inter-relations.

In constitutional law, however, the dominions are no more corporations than they are sovereign or part sovereign states. Nor would it solve the problem if they were endowed with corporate personality because the concept is altogether too narrow to cover the public acts of a dominion in its external relations. A few illustrations will indicate the difficulty. Suppose Canada enforces a customs act against commonwealth ships up to twelve miles off shore, or the Free State prohibits fishing by non-nationals within a like distance; or suppose an Australian state repudiates its public debt and some of the bonds are held in other member states; or suppose New Zealand deports without a hearing British nationals with alleged "red" tendencies. It is difficult to see how the idea of corporate personality could be stretched either to forbid the action in question, or to permit any right of action to the dominion whose nationals were affected.

The fact remains that the only kind of law appropriate to a wide variety of intra-commonwealth relations is international law. The problem is, how can international law be incorporated into the commonwealth's constitution without at the same time endangering such unity as still remains? The first step is obviously the recognition of the dominions as persons of international law. It does not necessarily follow that such recognition means ascribing to the dominions full power of sovereign states. American experience is in point; the

³⁰ *Commonwealth of Australia v. New South Wales*, Commonwealth Law Reports 200 (1923); Moore, *op. cit.*, Vol. VII (1925), p. 161; D. Kerr, *The Law of the Australian Constitution* (Toronto: Carswell, 1925), p. 238. It is noteworthy that in the case above referred to the High Court held the state was liable in tort to the Commonwealth although no express statutory right existed.

³¹ Baty, *op. cit.*, has an interesting discussion as to the status of Australian states. Mr. Baty concludes they are not international persons but merely "channels of government."

states have been recognized as possessing only certain capacities of sovereign states, not all capacities.³² Clearly the dominions already possess certain capacities of sovereign states in their relations with foreign states, but it does not follow that any foreign state recognizes them as full sovereign powers, and there would seem to be no inherent objection to ascribing to the dominions the status of part sovereign or semi-sovereign states in their relations with one another. A technical difficulty is of course the doctrine of the unity of the Crown, but the theory of the Crown has already undergone many changes, as for example in the case of the federation of Canada,³³ and there is no reason to believe the bench or the legal profession have lost their ingenuity.

To raise the question of sovereignty is to open probably the most delicate constitutional issue before the Commonwealth. Hitherto we have avoided the difficulty because our constitution was largely conventional, but with the passing of the Statute of Westminster our conventional constitution seems, whether for good or ill, to be taking on legal form, and it is difficult to see how a re-examination of the concept of sovereignty can be much longer delayed. In any re-examination we must on the one hand beware of legal fundamentalism which would insist on the *status quo* and on the other of any doctrinaire or sentimental approach from definitions of equality of status or rights of independent states. The genius of the constitution has been flexibility, the philosophy of its growth pragmatism. There is no sound reason for discarding either.

³² Certain powers of sovereignty are prohibited by the Constitution as, for example, making treaties or agreements except with the consent of the United States, and certain powers have been denied the states by judicial interpretation, as, for example, the right of withdrawal from the Union. *Texas v. White*, 7 Wallace 724.

³³ *Liquidators of the Maritime Bank of Canada v. Receiver-General of New Brunswick*. A.C. (1892), Sir William Harrison Moore contends that the law already recognizes a division of interest in the rights of the Crown and hence the possibility of suit between the Crown acting in one capacity and the Crown acting in another capacity. Moore, *op. cit.*, Vol. VII (1925), p. 155. But see Mr. Baty's reply, *op. cit.*, p. 157.

The Agreement of 1930 as respects the intra-commonwealth tribunal has the distinct merit that it does not force the pace. On the other hand there is real danger that because of its very indefiniteness it will amount to little more than a pious hope like so many arbitration agreements between sovereign states. One concrete suggestion is perhaps in order. What objection could there be to inserting in non-political agreements, for example in trade "treaties," between members of the Commonwealth, the specific obligation to arbitrate in accordance with the terms of the 1930 agreement any disputes arising out of the agreement in question and between the parties, and particularly disputes over its interpretation? This is now a very common practice in treaty-making, especially in non-political treaties. It has many advantages. It is a restraint on politicians tempted to play fast and loose with treaty obligations for partisan purposes; it is an earnest of good faith; and it removes from the emotional field of politics questions essentially justiciable rather than political in character. As respects the Commonwealth it would have the added advantages of tending to make the indefinite agreement of 1930 more definite and workable; it would help to give pith and substance to the term "justiciable" which is badly in need of definition; and it would help to bridge the gap now existing between constitutional and international law. Nor would it be open to the objection of forcing the pace. Indeed this might very well be followed with respect to any agreements reached at the coming Imperial Conference. The necessity for certainty in trade agreements needs no elaboration. The specific obligation to arbitrate differences arising out of an agreement and between the parties thereto might be an important means to assure both certainty and fulfilment.

As respects the theoretical difficulties raised earlier in this paper, they need not be insurmountable in practice. Agreements between members of the Commonwealth may not be legally binding upon them in constitutional law, but this does not say that they will not be kept. The findings of an arbitral tribunal may have no legal validity in constitutional law, but this does not say that they will not be loyally followed. There may be no accepted standard of substantive law for such a

tribunal to apply but there is nothing to prevent the parties agreeing in advance to the principles of law applicable to their dispute as is normally the case in arbitration between sovereign states, or agreeing to leave the tribunal sitting on the case a free hand to find its own law. In the settlement of disputes and in the making of agreements between members of the Commonwealth, as indeed in most phases of intra-commonwealth relations, the fundamental principle of action is mutual good faith. That this is a moral rather than a legal principle should be beside the point for sister nations united by a common Crown and by common cultural and legal traditions.

THE PLACE OF THE FAR EASTERN CRISIS IN WORLD AFFAIRS

NORMAN A. M. MacKENZIE

The importance of the present crisis in the Far East is due not only to the serious consequences likely to follow for Japan and China as a result of it, and incidentally for the other countries interested there, but also because it is the first occasion in which the League of Nations, and other post-war methods of preventing war have been put to the test. For this reason I propose to discuss incidentally the quarrel between Japan and China and to devote most of my attention to the position of the League and its members, and of the United States and Russia, in the struggle, and as this may be best done in the light of our own British and Canadian position and policy I propose to deal with them first.

A few weeks ago Sir John Simon summed up British interests in the Far East in the words "Peace and Trade" and it may be assumed that British policy throughout has been one of so-called "enlightened self-interest" in promoting these ends. With this in mind it is worth reviewing briefly the history of Britain's policy in the Far East during the past century. In 1842 Britain after a long period of unsatisfactory relations with China due to China's desire for detachment and isolation, declared war (on China) in order to open up that country to British trade. Britain's policy ever since has, in the main, been devoted to enlarging the opportunities for trade and to breaking down Chinese opposition and obstacles to this penetration. It is only natural in view of the opposition and obstacles encountered that the feeling of many of those engaged in trade with China and even of many British officials should be one of criticism and hostility toward the Chinese who have made it difficult for them. Britain, too, in common, with the other European powers and Japan, toyed with the idea of dividing China up after the manner of Africa, and the Yangtse Basin was generally acknowledged as a British sphere of influence. The policy of the United States, in the words of one of her statesmen, was:

To seek a solution of the difficulties in China which might bring about permanent safety and peace to China, preserve Chinese territorial and administrative entity, protect all rights guaranteed to friendly powers by treaty and international law, and safeguard for the world the principle of equal and impartial trade with all parts of the Chinese Empire.

The reasons for this attitude are so obvious to every student of American history that I need not repeat them here. However, it is only fair to state on behalf of Britain that Lord Salisbury, then British Prime Minister, expressed himself "most emphatically as agreeing with the policy of the United States."

The relations of Britain with Japan on the other hand have for a number of reasons been entirely different. In the first place it was the Americans who were responsible for forcing Japan to open her doors to the foreigner; secondly, the Japanese leaders were quick to realize that they could not withstand the west save by adopting western methods, which they did very quickly; thirdly, having been westernized—in externals at least—Japan became the obvious ally for Britain in her opposition to Russian expansion; and fourth, Japan did not offer as attractive opportunities for exploitation as China. For these reasons it is easy to understand British pre-war policy toward Japan and China, and the situation in the Far East generally.

The Great War, however, changed all that, as it did so many other things in the relations of nations, and it is essential to look at the post-war situations in the Far East. In the first place, there is a very real difference of opinion between the Chinese and the other powers claiming rights in China as to the character of those rights. The Chinese feel that they are not in the best interests of China and that they were acquired by force applied in an unfair manner. On this assumption the Chinese have directed their efforts toward ending what they term "the unequal treaties" and the "unfairly acquired rights." As they are not in a position to gain their ends by direct force they have used diplomacy, the boycott, and the policy of "pin pricks." These methods have been used most effectively against the British and the Japanese but all foreigners have suffered to some extent. The foreigners on the other hand rely on the validity of their claims in inter-

national law, even though they admit that their rights were acquired by force and without the consent of China.

In the second place, the Great War proved so destructive to all concerned, (victors, vanquished and neutrals) that the post-war world looked for other and less costly methods of settling its difficulties. With this in mind the representatives of the nations drew up in 1919 the Covenant of the League of Nations, the relevant sections of which are as follows:

The High Contracting Parties,

In order to promote international co-operation and to achieve international peace and security

by the acceptance of obligations not to resort to war,

by the prescription of open, just and honourable relations between nations,

by the firm establishment of the understandings of international law as the actual rule of conduct among Governments,

and by the maintenance of justice and a scrupulous respect for all treaty obligations in the dealings of organized peoples with one another,

Agree to this Covenant of the League of Nations.

ARTICLE 10.

The Members of the League undertake to respect and preserve against external aggression the territorial integrity and existing political independence of all Members of the League. In case of any such aggression or in case of any threat or danger of such aggression the Council shall advise upon the means by which this obligation shall be fulfilled.

ARTICLE 11.

1. Any war or threat of war, whether immediately affecting any of the League or not, is hereby declared a matter of concern to the whole League, and the League shall take any action that may be deemed wise and effectual to safeguard the peace of nations. In case any such emergency should arise the Secretary-General shall on the request of any Member of the League forthwith summon a meeting of the Council.

ARTICLE 12.

1. The Members of the League agree that if there should arise between them any dispute likely to lead to a rupture they will submit the matter to arbitration or judicial settlement or to enquiry by the Council, and they agree in no case to resort to war until three months after the award by the arbitrators or the judicial decision or the report of the Council.

2. In any case under this Article the award of the arbitrators or the judicial decision shall be made within a reasonable time, and the report of the Council shall be made within six months after the submission of the dispute.

ARTICLE 15.

1. If there should arise between the Members of the League any dispute likely to lead to a rupture, which is not submitted to arbitration or judicial settlement in accordance with Article 13, the Members of the League agree that they will submit the matter to the Council. Any party to the dispute may effect such submission by giving notice of the existence of the dispute to the Secretary-General, who will make all necessary arrangements for a full investigation and consideration thereof.

2. For this purpose the parties to the dispute will communicate to the Secretary-General, as promptly as possible, statements of their case with all the relevant facts and papers, and the Council may forthwith direct the publication thereof.

3. The Council shall endeavour to effect a settlement of the dispute, and if such efforts are successful, a statement shall be made public giving such facts and explanations regarding the dispute and the terms of settlement thereof as the Council may deem appropriate.

4. If the dispute is not thus settled, the Council either unanimously or by a majority vote shall make and publish a report containing a statement of the facts of the dispute and the recommendations which are deemed just and proper in regard thereto.

5. Any Member of the League represented on the Council may make public a statement of the facts of the dispute and of its conclusions regarding the same.

6. If a report by the Council is unanimously agreed to by the members thereof other than the Representatives of one or more of the parties to the dispute, the Members of the League agree that they will not go to war with any party to the dispute which complies with the recommendations of the report.

7. If the Council fails to reach a report which is unanimously agreed to by the members thereof, other than the Representatives of one or more of the parties to the dispute, the Members of the League reserve to themselves the right to take such action as they shall consider necessary for the maintenance of right and justice.

8. If the dispute between the parties is claimed by one of them, and found by the Council, to arise out of a matter which by international law is solely within the domestic jurisdiction of that party, the Council shall so report, and shall make no recommendation as to its settlement.

9. The Council may in any case under this Article refer the dispute to the Assembly. The dispute shall be so referred at the request of either party to the dispute provided that such request be made within fourteen days after the submission of the dispute to the Council.

10. In any case referred to the Assembly, all the provisions of this Article and of Article 12 relating to the action and powers of the Council shall apply to the action and powers of the Assembly, provided that a report made by the Assembly, if concurred in by the Represen-

tatives of those Members of the League, exclusive in each case of the Representatives of the parties to the dispute, shall have the same force as a report by the Council concurred in by all the members thereof other than the Representatives of one or more of the parties to the dispute.

ARTICLE 16.

1. Should any Member of the League resort to war in disregard of its covenant under Articles 12, 13 or 15, it shall *ipso facto* be deemed to have committed an act of war against all other members of the League, which hereby undertake immediately to subject it to the severance of all trade or financial relations, the prohibition of all intercourse between their nationals and the nationals of the covenant-breaking State, and the prevention of all financial, commercial or personal intercourse between the nationals of the covenant-breaking State and the nationals of any other State, whether a Member of the League or not.

2. It shall be the duty of the Council in such case to recommend to the several Governments concerned what effective military, naval, or air force the Members of the League shall severally contribute to the armed forces to be used to protect the covenants of the League.

3. The Members of the League agree, further, that they will mutually support one another in the financial and economic measures which are taken under this Article, in order to minimize the loss and inconvenience resulting from the above measures, and that they will mutually support one another in resisting any special measures aimed at one of their number by the covenant-breaking State, and that they will take the necessary steps to afford passage through their territory of the forces of any of the Members of the League which are co-operating to protect the covenants of the League.

4. Any Member of the League which has violated any covenant of the League may be declared to be no longer a Member of the League by a vote of the Council concurred in by the Representatives of all the other Members of the League represented thereon.

As the United States was not a party to this and as the Far East for reasons indicated above was in a very unsettled state, the powers interested there in 1922 drew up, signed and ratified The Nine Power Treaty, the main provisions of which are:

ARTICLE 1.

The Contracting Powers, other than China, Agree:

(1) To respect the sovereignty, the independence, and the territorial and administrative integrity of China;

(2) To provide the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable government;

(3) To use their influence for the purpose of effectually establishing and maintaining the principle of equal opportunity for the commerce and industry of all nations throughout the territory of China;

(4) To refrain from taking advantage of conditions in China in order to seek special rights or privileges which would abridge the rights of subjects or citizens of friendly States, and from countenancing action inimical to the security of such States.

ARTICLE 2.

The Contracting Powers agree not to enter into any treaty, agreement, arrangement, or understanding, either with one another, or, individually or collectively, with any Power or Powers, which would infringe or impair the principles stated in Article 1.

To further safeguard against the possibilities of war, practically all of the powers in the world, including the United States and Russia, in 1928 agreed to the Kellogg-Briand Peace Pact of Paris, which is as follows:

ARTICLE 1.

The High Contracting Parties solemnly declare, in the names of their respective peoples, that they condemn recourse to war for the solution of international controversies, and renounce it as an instrument of national policy in their relations with one another.

ARTICLE 2.

The High Contracting Parties agree that the settlement or solution of all disputes or conflicts, of whatever nature or of whatever origin they may be, which may arise among them, shall never be sought except by pacific means.

In the third place, due to the development of nationalism and to the popularity of the principle of self-determination in China, and to a changed attitude among many in Britain toward imperialism, official British policy in China since the war has been directed in the main toward the creation of a friendly feeling between Britain and China, on the assumption that a friend makes a better customer than an enemy. For this reason Great Britain has not only been a willing party to all of the treaties providing for the maintenance of peace in the world and the satisfactory settlement of the issues with China, but has been willing to surrender her "unequal rights" to China as fast as conditions and the security of her nationals and their property seem to warrant.

In the fourth place, with the temporary elimination of Russia as a great imperialistic power and with the increased tension between Japan and the United States, the Anglo-

Japanese treaty of mutual alliance no longer appeared either essential or desirable and was allowed to lapse in 1922.

The recent crisis between Japan and China is the direct outcome of the problem stated above, e.g., Japan's special rights in China based on treaties which were imposed by force, and the Chinese opposition to these rights and their continued attempts to end them and to force the Japanese to deal with China on terms of equality. The problem is complicated by the admittedly chaotic condition, social, economic and political of China, and the practical impossibility of finding anyone or any group able to assume responsibility for law and order in all parts of the country. Despite this, however, in view of the solemn obligations of both Japan and China, no attempt should have been made by either one of those powers to enforce their own claims without first exploring the possibilities of the League of Nations and the other means for preserving peace. And it is here that I take issue with Sir John Simon and with other apologists of British policy. For while I agree that one of the important functions of the League is to serve as a mediating force in the quarrels between nations, its principal function and the one which must be emphasized if it is to endure, is that of preventing wars from breaking out. To suggest that the League stands for mediation alone is to admit that we are still where we were in 1914, for it was possible even then to provide for mediation either before or after war had broken out. To suggest that we must wait for all individuals and nations to achieve a change of heart, or even to realize that wars do not pay, is in the light of the last war flirting with national and international suicide. The fundamental defect in the pre-war society was the ease with which wars did break out, and the disastrous consequences attendant upon them; while the only safeguard lay in armaments and alliances. One might as well suggest that the principal function of a fire department is to assess damages after a fire has occurred, or of a police department to decide who was in the wrong after a riot had broken out, as to agree with Sir John Simon and others of his opinion about the function of the League. If we are ever to achieve an international society in which the burden of armaments can be lightened and some guarantee of permanent peace achieved, it does seem essential that we provide

some security against attack and some assurance that wars may not be waged whenever any group of irresponsible militarists feel like experimenting with their latest toys.

It was into this field that the League of Nations brought a new idea and a new method into the relations of states. The idea may be summed up in the word "co-operation," and the method in "joint action." If there be no co-operation among the members of the League to secure peace and no joint action after aggressive measures have been taken in defiance of covenants, then the League would seem to have failed in achieving its main purpose, and it is unlikely that any degree of confidence can be placed in it in the future.

The tragic thing about this conclusion is as Sir Arthur Salter says:

That if the League fails now there is little ground for confidence that it will ever succeed . . . in what other instance is it likely that those who are concerned would have so strong an inducement to support the collective system. I find it difficult to believe that if the collective system now fails, any country will retain confidence that it will be effective in another serious issue and if our present system fails we can hardly hope to build again at least in our generation for we have nothing to build with if the confidence in the observance of engagements has been destroyed.

It may be objected that no war has occurred in the Far East and that the League has been largely responsible for preventing war, but this objection is on the whole mere "eye-wash," based on legal quibbling, for if the facts are examined it is evident that an "unofficial" war has been raging there as a result of which Japan has gained her immediate ends in Manchuria (the real control of that area), and shows little indication of any intention to give it up. Her success in breaking the anti-Japanese boycott, by her attack on Shanghai (which seems to have been the main reason for that attack), is less apparent, but this lack of success has not been due to any action on the part of the Members of the League, of the United States or of Russia, but rather to the unexpected and dogged resistance of the Chinese soldiers. The League, the Nine Power Treaty and the Kellogg-Briand Pact have been unable to prevent losses in that city that are estimated at \$400,000,000, 180,000 homes damaged, 8,000 civilians killed, some 10,000 civilians missing, and very heavy combatant casualties.

Here it is interesting to consider the attitude and action of Great Britain, the United States, Russia, and the League, together with the consequences apparent and probable to all of them, including China and Japan, and all in terms of "enlightened self-interest." Britain's policy has been one of keeping the British peace at all costs, and of doing nothing that would injure British trade by antagonizing either of the combatants. To this end she has shown a marked reluctance either to do anything of a positive nature herself or to co-operate with anyone else in doing anything, and her attitude can be pretty well summed up in Sir John Simon's "Peace and Trade," and in the Foreign Office Communiqué of January the ninth, in reply to the American proposals of a few days earlier:

Jan. 9/32.—It was announced that the Government had decided not to follow the example of the United States Government in addressing a note to China and Japan regarding Manchuria, and the Foreign Office issued a communiqué reading: "His Majesty's Government stand by the policy of the open door for international trade in Manchuria . . . since the recent events the Japanese representatives at the Council of the League of Nations at Geneva stated on October 13th that Japan was the Champion in Manchuria of the principle of equal opportunity and the open door for the economic activities of all nations. Further, on December 28th the Japanese Prime Minister (since assassinated) stated that Japan would adhere to the open door policy, and would welcome participation and co-operation in Manchurian enterprise. In view of these statements H. M. Government have not considered it necessary to send any formal Note to the Japanese Government on the lines of the American Government's Note, but the Japanese Ambassador in London has been requested to obtain confirmation of these assurances from his Government."

The United States has shown throughout a good deal more concern than has Britain, and her readiness to co-operate with the League, in the light of the past ten years has been remarkable. Failing to get positive action on the part of the League, Mr. Stimson has on two occasions clearly enunciated the American attitude; once in his Note of January 7th, to the governments of Japan and China, and again in the letter explanatory of this note which he wrote to Senator Borah, dated February 24th. The relevant sections of these are:

[Note, Jan. 7, 1932.] The United States Government cannot admit the legality of any situation *de facto*, nor does it intend to recognize

any treaty or agreement entered into between these governments or their agents which impairs the treaty rights of the United States or its citizens in China.

The United States Government does not intend to recognize any situation or agreement which may be brought about by means contrary to the covenants of the Pact of Paris of August 27th, 1928, to which both Japan and China as well as the United States are parties.

[Letter, Feb. 24, 1932.] The Nine Power Treaty forms the legal basis upon which now rests the Open Door policy toward China.

At the time that this treaty was signed it was known that China was engaged in an attempt to develop the free institutions of a self-governing republic after her recent revolution from an autocratic form of government; that she would require many years of both economic and political effort to that end; and that her progress would necessarily be slow. The treaty was thus a covenant of self-denial among the signatory powers in deliberate renunciation of any policy of aggression which might tend to interfere with that development.

It must be remembered that this Treaty was one of several treaties and agreements entered into at the Washington Conference by the various Powers concerned, all of which were inter-related and interdependent. No one of these treaties can be disregarded without disturbing the general understanding and equilibrium which were intended to be accomplished and effected by the group of agreements arrived at in their entirety. The Washington Conference was essentially a disarmament conference aimed to promote the possibility of peace in the world, not only through the cessation of competition in naval armament but also by the solution of various other disturbing problems which threatened the peace of the world particularly in the Far East.

These problems were all inter-related. The willingness of the American Government to surrender its then commanding lead in battleship construction, and to leave its position at Guam and in the Philippines without further fortification, was predicated upon, among other things, the self-denying covenants contained in the Nine Power Treaty, which assured the Nations of the world not only of an equal opportunity for their Eastern trade but also against the military aggrandisement of any Power at the expense of China. One cannot discuss the possibility of modifying or abrogating these provisions of the Nine Power Treaty without considering at the same time the other promises upon which they were really dependent.

The story of the part played by the League in the struggle is too long to tell here. But the Council, the Assembly, or a Committee of the Assembly, have been in almost constant session ever since the outbreak on the night of September 18th, and the Commission appointed by the League, consisting of the Earl of Lytton of Great Britain, General Claudel of France, Herr Schnek of Germany, Count Aldolrandini of

Italy, and General Frank R. McCoy of the United States, to enquire into the whole situation is still in Manchuria, carrying on with its investigation, and there is still some slight opportunity for the League to redeem itself after the report of this commission is received. In the meantime, acting on the suggestion contained in Mr. Stimson's letter, it has allied itself with the policy of the United States in the following terms (Assembly Resolution of March 11, 1932) :

Declares it incumbent upon the Members of the League of Nations not to recognize any situation, treaty or agreement which may be brought about by means contrary to the Covenant of the League of Nations or to the Pact of Paris.

The policy of Russia throughout has been to avoid hostilities at all costs, for her leaders realize that a war with Japan would jeopardize the success of the communist experiment, and, while they are reluctant to give up their interests in Manchuria and the maritime provinces of Siberia and are re-enforcing their troops there, it is probable that they would not risk any major engagements East of Lake Baikal.

In China the leaders of the Nationalist government realized from the outset that they were in no condition or position to oppose Japan by armed strength, so they placed themselves completely in the hands of the League and the United States. This brought so few results that the Chinese soldiers themselves seem to have taken the matter in hand, failed to withdraw from Shanghai as arranged (or so it is suggested) and defended that city and its environments with great courage and great loss.

Japanese policy has been sometimes at cross purposes, due to the different attitudes of the civilian and military sections of her government, but in two matters there seems to have been fairly consistent agreement, one to seize and hold under some form of Japanese control the whole of Manchuria; the other, to cow and disorganize the Nationalist and radical groups in China proper by actual or threatened attacks on the vulnerable cities of China.

In the main, with the exception of China, all of the nations aforementioned have achieved their ends. But from these ends or from the methods adopted in achieving them have come dangers and consequences of a quite unexpected character.

In Japan the financial and economic situation, already serious, has grown worse, while the consequences of attempting to achieve her own ends by force in place of using "constitutional" methods, is reflected in the fate of her premiers and great financiers. It is true that she has acquired Manchuria, but keeping it is another matter, for that involves trying to govern thirty millions of Chinese against their will and against the will of the hundreds of millions of Chinese in the adjoining provinces. It increases the probability of hostilities with Russia a hundred fold and it is almost certain to lead to an increase in armaments by the United States.

The United States is so absorbed in its own domestic problems that no clear cut results of the crisis in the Far East are yet visible. However, it has brought home again to that country the futility and dangers of a policy of isolation, has caused her to co-operate to a surprising extent with the League of Nations, and, as suggested above, if Japan remains in Manchuria, is likely to increase American fears of her, with resulting increases in armaments.

The consequences to China have been destruction and chaos. The Nationalist government is but a shadow of its former self, the Kuomintang is in the pillory, and destructive communism and banditry are rampant, while the hatred of Japan and distrust of the League and the western powers has increased accordingly.

Sir John Simon has preserved "the British Peace" but has left Great Britain and the British dominions heirs to the practical certainty that on some other occasion when British security is more clearly involved, as it was in Belgium in 1914, that neither Britain nor any of the dominions can look to the League of Nations, or to the promises or covenants of other nations to save her from attack or assist her if attacked. They apparently will have done their duty if they are prepared to mediate after the event. As for trade, despite the transitory fillip resulting from dropping gold and from the boycott of Japanese goods by the Chinese, it is certain that the destruction and chaos in China are not in the best interests of British trade.

Russia, as pointed out earlier, while alarmed, does not want to fight with Japan at present. But the loss of her

railways and interests in Northern Manchuria would be a serious blow to her prestige as well as a menace to her distant Siberian provinces. While if war does break out it will greatly delay her economic re-organization if it does not wreck it altogether. For this reason there are some grounds for believing that there are elements in other countries that are not adverse to the outbreak of war between Japan and Russia, in the hope that it might destroy them both, thus removing a double menace and leaving the "spoils" of Manchuria and the Ukraine to the onlookers.

The part played by the League in the whole affair has been a difficult and far from successful one. Its constitution prevents it from being more than the expression of the collective opinion and will of its members, and as we have seen the opinion and will of those members, in a position to be effective, were opposed to action. While a great deal of concern was expressed by the smaller powers and for that matter by outstanding individuals in all countries, they were not in a position to act themselves or to force others to act. The result has been generally bad. The great powers have seen that the League will not prevent them forcing their demands on others. The small powers have realized that the League offers them little, if any, guarantee against attack. China has little, if any, faith left in it. While Japan has given its requests and suggestions the scantiest consideration when they did not coincide with her own desires.

And what of Canada and her position in regard to it? Most Canadians, despite the Great War, are still in a fog as to their position in, and responsibility for, international affairs, and this is reflected naturally enough in the attitude of our government. We are a small power and a member of the League, and we have for all intents and purposes no armaments, so naturally we are concerned in the success and failure of the League and its policy of pooled security. On the other hand we are a member of the British Commonwealth, and must consider our own position in the light of that of the other dominions, and particularly of Great Britain. And so, as Britain decided to do nothing we followed her lead. At the same time it must be remembered that Vancouver is nearer Tokio than London, and Canada has immi-

gration and race questions to face which do not concern Great Britain. Then it is inevitable that the sentiment and policy of the United States toward Japan, and toward any failure of Great Britain to co-operate with her (the United States) in the Pacific, affects us, and may involve us in extremely difficult situations. As for trade, the fall in the value of silver, the dislocation of government and industry in China, the boycott of Japan, and the new Japanese tariffs, are not likely to improve the possibilities for trade with the orient in the near future.

It may be, of course, that the League method and the post-war philosophy and policy of co-operation and joint action have been born out of time, and that there is no real desire to see them replace the untrammelled action of states and governments in their dealings with each other. But if this be true, and it must be admitted that the readiness of all governments to license the export of arms to both Japan and China at a time when they were professing great concern at the outbreak of hostilities between them—and this on the eve of a world conference on disarmament—then it is doubtful in view of the destructive character of the weapons with which science has provided us, that we will be given another chance of educating ourselves and our fellow countrymen to the necessity of some such method.

CURRENT PROBLEMS OF POLITICAL SCIENCE— DISCUSSION

N. W. ROWELL.—We are all indebted to Professor MacKay for his very clear and comprehensive statement on the proposed intra-empire tribunal. While there is much in Professor MacKay's paper with which I find myself in entire agreement, he has put forward certain propositions relating to our constitutional position and power which I am unable to accept, and because I am unable to accept them, I have reached a somewhat different conclusion as to the desirability and practicability of the establishment of an intra-empire tribunal.

Now, may I deal with them in order?

Professor MacKay states that the "dominions are not more than dependencies in law," and are "subject to the legislative supremacy of the British parliament". This conception of the relations of the dominions to the mother country must spring from an effort to describe our inter-commonwealth relations by some of the existing categories. I submit that this cannot be done. The British Commonwealth is something entirely new in political organization, and no existing category properly describes it.

Canada to-day, in her relation to Great Britain, has none of the characteristics of a dependency. She is not a dependency in any real sense, but a co-equal member of the Commonwealth. Nor can it be truly said that the dominions are subject to the legislative supremacy of the imperial parliament. By the Statute of Westminster, the imperial parliament has, by express enactment, relinquished its legislative control over the dominions, and has declared that in future no act of the imperial parliament shall apply to any dominion, except at the request, and with the consent of the dominion, and the act must so specify. Under the Statute of Westminster dominion laws take effect, even though repugnant to imperial laws. Canada can repeal any imperial law forming part of the law of Canada now in force or hereinafter enacted, save the British North America Act. Dominion laws have extra-territorial effect. By virtue of the constitutional developments which preceded the enactment of the Statute of Westminster, the imperial parliament has now become a trustee for the dominions of the imperial legislative power with respect to the dominions, and has declared it will only use this power at the request and for the benefit of the dominions.

The governor-general is no longer a representative of the government of Great Britain, but is the direct representative of His Majesty in Canada, and is chosen, not on the recommendation of the imperial

government, but on the direct recommendation of the Canadian prime minister. The dominions have the right of legation, and they have the right to negotiate their own treaties.

None of these powers which I have mentioned are characteristic of dependencies, nor are they consistent with our idea of what a dependency is, nor with the so-called unlimited legislative supremacy of the imperial parliament.

Professor MacKay says that agreements between members of the Empire would not appear to give rise to any legal rights or obligations "unless, of course, ratified by an imperial act," as would a treaty between sovereign states. He points out the contrast between the constitution of the British Commonwealth and that of the United States, and says, "The latter lays specific obligations upon member states of the Union in their inter-relations, as, for example, interstate rendition of persons accused of crime. It permits agreements between states, with the consent of the United States, which agreements are undoubtedly binding in law, and it specifically provides for the settlement of disputes between states by the Supreme Court of the United States, which gives rise to the assumption that their relations are governed by law. The fundamental difference appears to be the doctrine of sovereignty. The states began with the assumption that they were sovereign, though certain sovereign powers were transferred to the United States, which also within its field was a sovereign authority. Political developments have made state sovereignty the merest fiction; the law, however, has retained it as a working principle. The dominions, on the other hand, began as colonies. Political developments have made them in fact far more independent than American states; but the law still retains the doctrine of dependency."

I cannot accept this statement as defining the powers of the dominions to enter into agreements with other members of the Commonwealth, or agree with what would appear to be Professor MacKay's view that sovereignty is indivisible. Here, again, I think Professor MacKay must be accepting the view entertained by certain professors of international law (of whom Professor Morgan is a notable example) who cannot escape from their pre-conceptions as to what political organization of the Empire should be, and who persistently refuse to recognize the full implications of our constitutional development.

I submit the dominions have the capacity to contract in respect of any matter within their legislative competence. This is illustrated by the judgment of the privy council on the radio reference. The privy council held that the radio agreement to which Canada and the United States are parties, was not a treaty within the meaning of section 132 of the British North America Act, and that section 132 did not apply to give the Dominion legislative power over the subject matter of the agreement. They also held that such an agreement did not come within the enumerated powers of section 92, but the Dominion had full legis-

lative authority under its general powers of legislation relating to peace, order and good government.

If the Dominion has power to make a valid agreement with a foreign state, it appears to me it must have equal power to make an agreement with any other member of the Commonwealth. I can see no sound ground for contending that the dominions cannot make trade agreements with each other, or with the mother country—agreements which constitute binding obligations on the parties to them, although no tribunal may exist for enforcing them.

The constitutional development of the dominions is creating a new conception of sovereignty. We have a division of sovereign power in Canada between the Dominion and the provinces. Each is equally supreme within its own sphere, as supreme, the privy council has said, as the imperial parliament itself. The crown in the right of the province can litigate and does litigate with the crown in the right of the Dominion, and our courts do in fact determine their respective rights and obligations. This being so, I can see no good ground for contending that legislative sovereignty over the entire Empire cannot be divided between the different constituent parliaments of the Empire, each supreme within its own legislative sphere, the imperial parliament, it is true, retaining as trustee for the dominions, legislative power to enact measures relating to the whole Commonwealth.

Professor MacKay says, "What law should a Commonwealth tribunal apply? This is the very crux of the whole question." Undoubtedly this presents a real problem, but not so serious as to prove insuperable. The Commonwealth is unique in its character, and the law applicable would depend upon the nature of the issue involved. It might be municipal law; it might be constitutional law; it might be international law; or it might be a combination of any two or of all three, depending upon the question to be determined. The law to be applied to the determination of any justiciable issue might be determined when constituting the tribunal, as in the case of the Permanent Court of International Justice, or it might be left to the determination of the tribunal.

As to the character of the tribunal. I entirely agree with Professor MacKay that the privy council as now constituted is not a satisfactory tribunal for the determination of intra-empire disputes. On the other hand, I do not think an *ad hoc* arbitration tribunal is adequate. I believe a permanent commonwealth tribunal with compulsory jurisdiction, as suggested in the 1929 Report, is desirable for the following, among other, reasons: (1) to provide a means of settling justiciable disputes between the members of the Commonwealth, (2) to preserve the unity of the commonwealth, which might otherwise be imperilled, because of a justiciable dispute which one member might be unwilling to submit to arbitration, (3) a permanent tribunal gives greater stability and security than an *ad hoc* arbitral tribunal.

May one illustrate the point by the present dispute between the Irish Free State and Great Britain. Whether or not the oath of allegiance required of members of the Dáil, is an integral part of the Irish treaty, is clearly a justiciable issue; whether it can be abolished by unilateral action, or only with the consent of both parties, is also a justiciable issue. If there were a permanent commonwealth tribunal with compulsory jurisdiction, either party to this dispute might submit it to the tribunal for decision, and the question could be settled by due process of law, and all the heated political controversy and ill-will which may be engendered by other modes of procedure might be avoided.

I cannot understand why the dominions and Great Britain, which have all agreed to give compulsory jurisdiction to the Permanent Court of International Justice to settle justiciable disputes arising between them and foreign nations, should hesitate to give similar powers to an intra-commonwealth tribunal to decide justiciable family disputes.

EDGAR MCINNIS.—Professor MacKenzie has presented the situation relating to the Sino-Japanese controversy and the League of Nations so clearly that it is with some diffidence that I attempt to add anything to what he has said. I should like, however, to suggest one or two implications which seem to me to rise out of the situation as he has presented it.

The crisis in the Far East illustrates a dilemma in the conduct of international relations which goes back far beyond the war. It dates back at least to 1815. It is the dilemma between security and sovereignty. On the one hand you have a sincere desire to eliminate war as an instrument of national policy, and to substitute some form of group security based on consultation and concerted action. On the other hand you have a reluctance to abandon complete national independence—a desire for entire freedom of action in such matters as expansion, or the defence of particular interests, or the vague cause of “national honor”. The trouble is that when these two clash, it is usually the second motive which conquers. They have recently clashed in the Far East, and the outcome shows that this is still true. Against the idea of group security, as represented by the League, we saw Japan boldly standing forth on the basis of what we had hoped was the outworn imperialism of half a century ago. And the fact that Japan was able to maintain her position shows that the other powers have by no means abandoned that same basis. The result has been a severe blow to the idea of group security, and the loss of ground, hardly won during the past ten years, which will be extremely difficult to recover in the face of any new attack.

But even if the powers had sincerely abandoned their ancient ways, there are other factors which might account for Japan's successful defiance of the League. There is the question of what action could be taken to prevent her; that is, the question of sanctions. Article XVI

of the Covenant laid down a plan of concerted action against a recalcitrant state, in an effort, as it specifically states, to prevent the burden of positive action from falling on any single power. The trouble is that it will not always have that result. There may arise cases in which the brunt of coercive action will fall on a single power. In case of military action against Germany, France would bear the chief burden. In case of a blockade, Britain would be the power chiefly responsible, and would have to risk a possible clash with the United States. And in the application of economic sanctions, there is frequently one power whose interests would be chiefly involved, and on whom the bulk of the loss would fall.

The knowledge that the support which might be expected from other powers would be of doubtful effect in minimizing such loss accounts for the hesitation of the League in applying the sanctions which are at its command. No single power is willing to make the sacrifice involved for the dubious benefit of the rest of the world. No power is going to risk finding itself involved in a possible war, as a result of applying the sanctions, when active support from the other powers is more than doubtful. And, even if war should not result, there is the possibility of being left to face later retaliation when the crisis itself has blown over.

In the present case, however, these difficulties were greatly minimized by the attitude of the United States. From the outset, the United States showed the greatest anxiety to co-operate with the League in ending the crisis by speedy and effective action. This attitude was of the greatest importance. It made possible the application of economic sanctions, since the United States rather than the League members would have borne the brunt of any retaliation. It removed the danger of a naval clash between Britain and America arising out of the action of the League. Most important of all, joint action by America and the League would have been a precedent whose significance would be quite incalculable. Possibly the United States would not have participated actively in the application of sanctions. Indeed, it is remarkable that the government went as far as it did. Opinion in the country was divided and uncertain, and the fact that Mr. Stimson took so positive a stand showed real courage under such conditions. But it cleared the way for definite action by the League by acceptance of the American offer of co-operation. Instead, there was wavering and inaction, and the greatest opportunity since the war for a firm assertion of the group principle was allowed to slip by.

As a result, we can now see more clearly the necessities upon which that principle must be based. There must be at least a partial abandonment of the principle of complete national sovereignty. There must be a willingness to submit certain fields of policy to central direction, in which each nation will have a voice but in which no one nation will be dominant. And there must be a sincere and effective abandonment of the ideas of imperialism and aggrandizement if group security is to

become practical and effective. We are faced with the question of what such security is worth. We are not going to get it without some sacrifice. We might as well consider honestly the price which must be paid.

The League, as statesmen have been busy telling us, rests primarily on world opinion. But the trouble is that world opinion does not function spontaneously and unaided. It needs leadership to make it effective—such leadership as the League itself should provide. And the tragedy of the recent crisis is that no such leadership was given to the inarticulate but very real opinion which existed throughout the world. It meant the loss of a tremendous opportunity; and unless the situation is retrieved by vigorous and courageous measures, I for one do not believe that history will deal lightly with the men responsible for the failure.

SOME PHASES OF EARLY CANADIAN RAILWAY DEVELOPMENT

[PRESIDENTIAL ADDRESS]

S. J. McLEAN

The first charter granted to a railway in Canada was that of the Champlain & St. Lawrence Railway dated February 25th, 1832. This railway, 16 miles in length, was, in effect, a portage line connecting the St. Lawrence and Richelieu rivers. While granted by statute the attributes of a steam railway, some years elapsed before it graduated from a tramway to the steam railway class. Although chartered in 1832, the work did not commence until 1835. It was operated by horses in July, 1836, and first worked with locomotives in 1837. It was a "strap rail" road until 1847, when heavy rails were obtained. The strap rail had a wooden base upon which was spiked flat iron. This type of construction was in use in various parts of the North American continent. The veracious chronicler, Dr. Dionysius Lardner, in his book *The Railway Economy of Europe and North America* indicates that travelling was then a venturesome matter, for he narrates that from time to time in the southern states the flat iron wore loose around the spiking and occasionally sprang up through the floor of the railway carriage, not without danger to the passengers and crew.

The activity, first in railway projection and later in railway construction, in Great Britain and the United States attracted attention in the Canadian press at an early date. The discussion of railway construction was tied up to the activities of the Canadas in improved waterways; the progress which was being made in the United States in railway construction would, it was feared, take away from Canadian waterways and canals the traffic for which they were catering. It was felt that it was necessary to build railways if the traffic which had been moving by the canals was to be protected.

The early interest as shown in the newspapers of Lower Canada was concerned with north and south lines. The Champlain & St. Lawrence Railway was one of these. One of the very significant features of Canadian development in

this early time was that, notwithstanding the pull of the north and south lines and means of communication, there was not that spread of American influence which might have been anticipated. Many ideas were put forward about railway projection—many of them curious—all of them showing a belief in the necessity for railway construction. One of the propositions of the time was that the railways, in order to be protected from the interference of snowstorms, should be built on stumps from six to eight feet above the level of the ground; and it was also suggested that, to offset the adverse effects of snow-storms, railways should be built in the direction of the prevailing winds. Perhaps the most interesting suggestion was that of Joseph Howe in the '30s when he stated that, if the finances of the colony permitted, he would favour that the railway should carry passengers free, the burden of cost being paid out of the provincial exchequer.

While there was gradually intensifying discussion in the period prior to 1850, it was not until the decade 1850-1860 that the real start in railway discussion began.

It is not my purpose to go at length into the details of railway history, construction and operation—time would not permit this to be done; but it may be of interest to put forward in a somewhat outline manner a running—shall I say moving—picture of the development of the railways and their problems, at a time, when, in the first instance, the problem was not one of regulation but of how to obtain the railway. In setting out what I have to say, I shall attempt to let the facts speak for themselves. I am not ambitious in regard to settling the vexed question as to whether history repeats itself.

The expansion in the period 1850-1860 brought about a quick change in points of view. From publications of the times may be taken two extracts which will serve to show the changing point of view:

To advocate the construction of railways in Canada at the present time is rather hazardous. The man who does so must be well convinced of the feasibility of the plan he proposes, and see clearly the means of carrying out the object. So many abortive attempts have been made, particularly from Toronto, that the public have long since lost all confidence in the undertaking. Besides, there is a great feeling of unwillingness on the part of the public who are expected to find the funds

to invest so large a sum, as would be required, in the hands of irresponsible parties.

This pessimistic outlook on the situation is to be found in Smith, *Canada, Past and Present*, which was published in 1850.

On the other hand, the London *Economist*, of October 6th, 1860, pointed out that in the last fifteen years two great problems had existed in Canada: (1) the rapid creation of sound, efficient, and permanent means of rendering Canada the undisputed highway over which the trade of the vast region which seeks the outlets of the ports on Lake Michigan may flow in ever increasing volume between the east and west, and (2) the rapid creation of similar efficient and permanent means for developing the infant resources of the tract of Canadian territory which stretches from the westward to the Atlantic by Lakes Erie and Ontario and along the line of the St. Lawrence.

In a series of articles published about this time by the *Economist*, it is emphasized and re-emphasized that it has been the constant, as it has been the manifest, policy of Canada from its earliest period of active history to contend for the command of the western trade. In attempting to set out and appraise the possibilities of this western trade, comparison is made with the traffic between Great Britain and India. The enthusiasm being such, what had been achieved in mileage? In 1840, there were 16 miles in operation; in 1850, 40 miles. In the period 1850-1860, which in terms of the extracts cited above may be said to cover from pessimism to optimism, over 2000 miles were constructed.

When the Canadian Political Science Association is holding its annual meeting 100 years after the issuance of the charter to the Champlain & St. Lawrence Railway, some consideration may, with advantage, be given to the expansion, in the earlier years, of the Canadian railway network. An outline presentation may be obtained from consideration of the development of the two most important lines—the Grand Trunk and the Great Western. There is special significance in the period of expansion between 1850 and 1860.

The question of participation in traffic between Canada and the United States engaged attention from an early date;

and the interest in the United States in Canadian traffic developed about the same time as the interest of Canada in American traffic. In 1816, in an application made to the United States government by the promoters of the Erie Canal, it was claimed that the canal would tend to divert to the United States all the profits of the trade between Canada and Great Britain. As early as 1820, on the other hand, Col. By thought that the development of the Canadian artificial waterways would result in diversion of a large amount of American traffic to Canadian channels. In a letter in the *Montreal Gazette* of Sept. 2nd, 1845, it was claimed in support of the Ontario & Huron Railway, that it would tap the traffic of the northern lakes. It was stated:

The great object of the railway was to open such a line of communication as shall afford the Western traveller from the northern and eastern States of America the most expeditious communication, and thus to ensure to the emigrant and travelling community generally taking it in preference to the circuituous one of the Great Lakes.

The route at the time from the seaboard to Wisconsin or Illinois was by the Hudson River from New York or by railway or canal to Lake Erie; then by the circuitous route through Lakes Erie, St. Clair, Huron and Michigan; or, in the alternative, by railways or stages across the peninsula of Michigan.

The *American Railway Journal* of December 7th, 1850, said:

All of the great cities of the United States have for years been prosecuting, with most untiring pressure, works of immense magnitude and cost, for the purpose of drawing from its natural channel the business of the vast region which the St. Lawrence drains. They have so far succeeded in their efforts as to seriously affect the trade of Montreal and to render it at one time doubtful whether she was not actually declining, notwithstanding all her natural advantages which but for such works would have constituted her the commercial centre of that great valley.

The railway project in 1845 from Montreal to Portland was to be made up of the Atlantic & St. Lawrence from Portland and the St. Lawrence & Atlantic from Montreal. It was claimed that this would enable the traffic of Montreal to find its way through Portland during the winter season. Stress was laid upon the advantages of the bonding arrangements. Some of what was anticipated was set out in the *Canadian Economist* of May 9th, 1846, which said:

. . . The Portland Railroad is not simply a measure of advantage to Montreal, but an essential condition to her continued prosperity. Without it, her trade instead of increasing will, in our opinion, decline, and with a declining commerce will come its attendants—a diminishing or . . . stationary population and a ruinous decrease in the value of real estate.

Reference may be made to the charter of the Quebec & Richmond Railway. This was the outcome of the feeling in Quebec that Montreal was going to obtain through the St. Lawrence & Atlantic a connection with the United States lines. It was felt that this connection would be of great advantage and, therefore, the Quebec-Richmond line should participate as soon as possible in the advantage of the American movement.

The city of Portland was interested in obtaining a connection with the maritime provinces through the European & North American Railway, whose fortunes were, to some extent, linked up with those of the Intercolonial. Portland was also interested in obtaining a north and south line of connection by way of Montreal. The city of Boston, at a railway jubilee held by it in 1851, contended that a result of its standing out against the commercial rivalry of New York was that the trade of the Canadas would be attracted to the markets of Boston; and flour would move from the Canadas on a cheaper basis.

At a meeting of the merchants of Boston on August 26th, 1851, it was resolved:

That the establishment of railroad communication between Boston and the Canadas and Great Lakes is an event in which the commercial community is deeply interested, as it is calculated to work great and beneficial changes in the business relations of the people of both nations, and that as the advantage which must result from these new means of inter-communication will be mutual, it is a fit subject of mutual congratulation and a proper occasion for a common celebration.

The Great Western, originally known as the London & Gore, was projected to run from Burlington to Fort Edward. The road, as projected in 1834, was intended to develop internal traffic in Canada and, also, to form a connecting link in the chain of railways between Boston and the Mississippi River. It was to be a portage line between the east and the west.

An article entitled "The Great Western Railway in Upper Canada—Extraordinary Advantages of this Route to the City of New York and some of the Western States" appeared in the *American Railway Journal* of April 15th, 1840. This was written by W. R. Casey whose name was later connected with the Atlantic & St. Lawrence Railway as Chief Engineer. It was stated that when the line was completed it would at once become the great western thoroughfare; that it had great advantages over any other route which could be projected; that these advantages were due to the natural conditions which no competition could affect; and it stated that it was not unreasonable to infer that the opening of this line would produce as great a change in "travel" as the opening of the Erie Canal did with "trade" in the west. This letter looked to the passenger traffic as being very important.

A prospectus was issued in 1845. It was therein set out that the line was to form a direct trunk line for the traffic of the principal towns and districts of Upper Canada. Its principal feature was, it was stated, that it combined the functions of a main artery for the local and provincial purposes of Upper Canada with that of being a link in the chain of through connection between the eastern and western states; that there was no reasonable doubt the road will at once absorb the greater part of this traffic; that no competing line can be made to divert this traffic; and that the Great Western is the most direct route to Buffalo and Detroit. Reference was made to the line south of the lake being longer. The Michigan Central, it was stated, was paying 7 per cent. dividends. The railways of New York and New England were paying from 7 per cent. to 10 per cent. The prospectus set out that if the projected railway could obtain two-thirds of the passenger traffic between Buffalo and Detroit, this would give 7 per cent. on cost of construction; and it was computed that additional extra returns would be obtained from local traffic and through freights.

In *Herapath's Railway Journal*, Oct. 4th, 1851, pp. 1058-61, will be found on account of the proceedings of a convention of the American friends of the Great Western held at Niagara Falls on May 5th and 6th, 1851, at which the following resolution was passed:

RESOLVED: That . . . the speedy completion of the Great Western Railroad, from Niagara Falls to Detroit River, is highly important forming, as it does, a necessary link, which will not only be the shortest route but more level in grades and straight in linear arrangement than any other trunk line can be made for the same route of travel.

John M. Forbes, Alexis Ward, Theodore Delion, Henry G. Gibson, John Wilkinson, Erastus Corning, John I. Norton, John E. Thayer, George B. Blake, D. D. Williamson, John C. Green, Edward L. Baker, Charles Paine, William I. Eustis, Z. Chandler, Henry Letyard, Henry N. Walker, and J. W. Brooks appointed a Committee to procure American subscriptions to the Great Western.

Statement of Committee: "By law, the railroads in New York have the right to subscribe to the stock of this road 5% upon their capital. This amount from those upon the direct or continuous route together with the same from the stockholders in the Michigan Central Railroad Company; the latter not having the right to subscribe as a company will provide from \$800,000 to \$850,000, leaving to be furnished from the American public, say, \$200,000. A considerable portion of this will, probably, be raised in the City of Detroit, whose interests are most intimately connected with the completion of this road.

"An examination . . . of the map will show . . . how deeply interested are the rest of the roads in the chain in its speedy completion. This done, and no line of road can be built from New York or New England to the valley of the Mississippi whose line will be so short or straight, with such easy grades or so well adapted in every particular to the carrying trade between the Atlantic and the growing millions of the Northwest."

Sir Allan McNab, Prime Minister of Upper Canada, went to England to float the securities of the Great Western. It looked for a time as if satisfactory arrangements could be made; but the railway crash which brought down Hudson, who was interested in promoting the road, prevented the work being gone on with at the time.

The railway had, through its president and directors, suggested that in view of the depression in Scotland and Ireland immigration of labourers from those countries might be connected with the development of internal matters in Canada; and in this connection it was urged that assistance might be given to the Great Western.

The prospectus of the Grand Trunk, which was issued in 1853, and which will be found in *Herapath's Railway Journal* of April 10th, of that year, was exceedingly optimistic; but the reference already given will show that optimism was something which attached generally to railway promoting and

activity at the time. The Great Western, as has been seen, had estimated a return in excess of 7 per cent; the Grand Trunk estimated a dividend of 11.5 per cent.

At the very outset, much was made of the fact that the government of Canada was interested in the enterprise, this being evidenced by the names of some of the leading members of the government appearing as directors in Canada; and further reliance was placed on the fact that under the Guarantee Act assistance was being given by the government of Canada to the railway. This argument was to be met with very often and in many different forms in the later history of Canada and of the railway.

The prospectus set out that the system of railway proposed was one of the most comprehensive in the world; that it was protected from the possibility of injurious competition for nearly its entire length by natural causes, as well as by legislative enactment; that it engrossed the traffic of a region extending 809 miles in a direct line from Portland to Lake Huron, containing a population of nearly 3,000,000 located in Canada, Vermont, New Hampshire, and Maine; that from Toronto the line passes westward through the heart of the western peninsula of Canada, ensuring to the Grand Trunk the exclusive traffic of the finest part of the province; and that at Sarnia it would obtain connections with the American lines.

It seems a pity to mar such a work of art by endeavouring to summarize its provisions; so, possibly, one or two quotations may serve to show that the skill of prospectus drafting is not confined to recent years alone:

The Grand Trunk . . . pours the accumulating traffic of the Lakes in one unbroken line throughout the entire length of Canada into the St. Lawrence at Montreal and Quebec, on which it rests at the north; while, on the south, it reaches the magnificent harbours of Portland and St. John . . . The whole future traffic between the western region and the east including, also, the Canadian ports, the States of New Hampshire and Vermont, the whole of the State of Maine, and the Provinces of New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland, therefore, pass over the Grand Trunk Railway.

It comes with the guarantee of the Province of Canada which has embarked upwards of 2,000,000 Sterling in the enterprise; it is supported by the most intelligent, far-sighted men in the Colony; and has the security of nearly half a million Sterling of private and Canadian

capital invested therein. While a conviction of the great benefits of unanimous action has provided a combination of railway interests probably never before seen, and ensuring such an energetic and harmonious working of the entire line as cannot but produce the most satisfactory results.

While the railway policy of the Canadas, especially in its practical application in Upper Canada, was predicated on participation in the United States traffic, it is surprising that the advantages of a continuous route were not adequately appreciated.

The technical question of a standard gauge had not attracted attention when the earlier charters were granted. The Champlain & St. Lawrence Railway, it is true, had a gauge of 5 ft. 6 in., but this did not proceed from any reasoned standard. Major Robinson, in his report on the Halifax-Quebec Railway, had favoured a 5 ft. 6 in. gauge; on the other hand, the British government had recommended in 1847 that in determining on a gauge Canada should not overlook that most favoured in the United States. The charter incorporating the St. Lawrence & Atlantic Railway had been so amended as to require the company to construct the road with a gauge of 4 ft. 8½ in., unless otherwise determined by the governor in council. The company petitioned against this, on the ground that it had already laid down a considerable portion of track on a 5 ft. 6 in. gauge, and to change it would entail considerable expense.

The matter of standard gauge had been discussed at considerable length in England. The distinguished engineer Brunel favoured a 7 ft. gauge; Stevenson favoured a 4 ft. 8½ in. gauge. The latter was, apparently, that in general use in connection with the so-called way-leaves. The way-leave was a right of way enabling the coal producer to bring out coal, over a railway of wooden rails, to a point where it could be disposed of. In the reign of Charles II, way-leaves, with wooden rail, 4 ft. 8½ in. gauge, were in use. It is claimed by some that the gauge of this width goes back to the days when grooves were placed this distance apart in the stone pavements of Roman cities, with a view to facilitating the movement of heavy loads of traffic.

The government of the Canadas took the stand that the 5 ft. 6 in. gauge should be adopted. The result of this was

that difficulties were put in the way of handling through traffic. In view of the stress laid upon the importance of through traffic and the participation by Canada in the traffic of the United States, it is difficult to understand, after this lapse of time, just what reasoning was regarded as conclusive. Casey, the Chief Engineer of the Atlantic & St. Lawrence Railway, favoured a diversity of gauge, his reasoning being that if gauges were uniform it would be easy for cars to get off the tracks of the home line, and very difficult to get them back. President Tyler, of the Grand Trunk, found in the diversity of gauge an assistance through exercise, to good health. He contended it was an advantage to have change of gauge, because this necessitated the passengers getting out at the junction point and taking exercise before they were transferred from the cars of one gauge to the cars of another.

While the prospectus of the Grand Trunk had spoken in glowing terms of the projected railway being to a great extent free from competition, the railway was hardly under way until complaints of competition and badly balanced traffic were heard. But while such complaints arose, they did not lessen the searching-out after competitive traffic. Hardly a year had passed after the chartering of the railway until the directors were reporting that a tentative agreement had been made with the Great Western to defer the construction of competitive lines in the western peninsula. At the same time, the manager's report was advocating western extension. The report felt that whether as an amalgamated company with the Great Western or acting as an independent company, a large amount of bread stuffs of Michigan, Iowa, Wisconsin, and a portion of Illinois, which had been finding their way to the seaport by water and the United States railways, must eventually pass over the Grand Trunk; not only on account of it being the cheaper and best route but, also, because of the lesser number of handlings involved.

Again, in the memorial presented to the government in 1857 by the railway asking for assistance, it was set out that the railway had anticipated that the traffic of the western section of Canada as well as that of the contiguous western states would afford business which would compensate for the lines in the east; but the railway now had to admit that the

receipts so far would seem to show that the traffic from the western sections would not for a long time afford more than a fair return on the capital invested.

In 1859, the report of Mr. Blackwell, vice-president and managing director, was exceedingly pessimistic in regard to the effects of competition. The report stated:

There is probably no undertaking in the whole world which is assailed by so much competition as that of the Grand Trunk, running as it does along the banks of a magnificent river and lake navigation for a distance of 500 miles, and a parallel railway—the Great Western—of 230 miles, with 1000 other railways tapping the country through which the Grand Trunk passes at Montreal, Ogdensburg, Cape Vincent, and Toronto, and running thence to the seaports of Montreal and Boston.

. . . The most severe competition is between Montreal and Quebec, the navigation being free and uninterrupted by locks. It is a question whether we can compete with the heavy traffic between the two cities, as it is conveyed in barges and tug steamers at about \$1.00 per ton, a distance of 180 miles.

In dealing with the traffic in the western district, the railway had to recognize the disproportion in tonnage, the preponderating tonnage being almost exclusively eastbound.

As summarizing the position of the Great Western as to its relation to the Grand Trunk, reference may be made to the special report which was issued under date of September 22nd, 1879. This report to the directors set out a proposition for the fusion of the net receipts of the Grand Trunk and Great Western Railway Companies of Canada. The Great Western was stated to be a link in a chain of east and west traffic. The report continued that in 1859 the Grand Trunk, whose lines had hitherto only been connecting lines, entered into competition with the Great Western in the district from Toronto to Sarnia. The policy of the Great Western has been peaceful—it has never built a mile of road in a district originally occupied by the Grand Trunk; that the Grand Trunk, on the other hand, has had an aggressive policy which was criticized by the Great Western for the low rate basis it put in. That, for example, from New York to Detroit by the Great Western was 697 miles; that the distance via the circuitous route over the Grand Trunk was 1,057 miles, and that the Grand Trunk was charging a low basis of rates.

The report further stated that repeated efforts had been made by successive Boards of the Great Western to work harmoniously with the Grand Trunk, either by agreeing upon joint rates in the territory which they jointly occupied or by some other plan limited to the competitive traffic. It was also set out that the Grand Trunk has always been reluctant to consider any basis which did not saddle on the Great Western liabilities in respect of the enormous length of the Grand Trunk mileage outside the Great Western System.

The report presented by President Tyler of the Grand Trunk in 1867 set out that the traffic in which the Grand Trunk was interested was to be found in a wholly competitive area. On the through traffic between Chicago and the east, there was competition of the Great Western and New York Central via Detroit to Suspension Bridge and Albany; that south of Lake Erie, there was the competition of the New York Central, Erie, and Pennsylvania Lines; that there was also competition from Chicago by way of Baltimore by rail, as well as competition by water by way of the Lakes and the St. Lawrence River. Reference was made to the local competition with the Great Western as well as the local competition with the lakes and the St. Lawrence through the summer months, for about nine-tenths of the length of the Grand Trunk.

In a charter of 1851 providing for the construction of a main trunk line, it had been stated that in case it was found impossible to construct the road as a government enterprise it should be built by the railway companies already incorporated, which would form a through line. At the same time, the Great Western was mentioned as being one of these companies. It was also stated it was to form a portion of the main line.

In 1851, a charter had been granted to the Toronto & Guelph Railway. One year later, the Grand Trunk was incorporated; and in the same year a charter was granted to the Toronto & Guelph Railway authorizing it to construct an extension to Sarnia. The granting of this charter was at once opposed by the Great Western, on the ground that it would interfere with vested rights. The committee on railways declared it would be unjust and impolitic to grant the

charter. It was held that the business existing would not be more than sufficient to maintain a single line; and it would not be wise to do anything which would militate against the business of the company since the province had made advances of money to it.

The younger Stevenson, who had been called upon to prepare a report for the Great Western on the question of districting the land served by the railways, reported in favour of such a plan of sub-division of areas; but this was not carried out.

Notwithstanding the opposition thus shown, the attitude of Hincks, who was in favour of competition in railway service, led to the charter legislation being granted. The history of Canadian railway activity in Upper Canada for years to follow thus turned upon the action taken in thus allowing railway facilities to be duplicated.

Both the Grand Trunk and Great Western were interested in obtaining American traffic. The traffic situation on American railways was in a very disturbed condition down to about 1880. During the American Civil War, traffic was stimulated. On the other hand, the Canadian railways had to face the disadvantage of fluctuating and depreciating currency.

In the period between 1862 and 1866, the Grand Trunk received a little over \$14,000,000 from American collections, and the loss on conversion was, approximately, 10 per cent. The Grand Trunk co-operated with New England railways and in doing so was engaged in contests with the Great Western and its associates operating through Niagara Falls. In an endeavour to ascertain who was responsible for the disturbed conditions, much recrimination was engaged in.

The panic of 1873, by disturbing conditions in the United States, created a condition which reacted severely upon the Canadian lines. Railway expansion in the United States, which had become very active after the termination of the Civil War, led to much rate-cutting. Pooling of one sort and another was relied upon by the railways; and the Canadian roads, being interested in American traffic and having made connections with different American railways, endeavoured, through pooling arrangements, to put matters on a more

stable basis. The attempts made in the seventies by American railways to obtain suitable pooling arrangements were characterized in most cases by failure. A similar experience was the lot of the Canadian roads.

Tyler, in his report of 1867, had estimated that the loss attributable to competitive conditions, so far as these two railways were concerned, amounted to £50,000 per annum in each case. Out of the conditions so recognized developed the belief and hope that a closer relationship would be an advantage. Tyler himself favoured a complete fusion of interests of the two companies. In June, 1867, an agreement was entered into between the two railways. This recited that there were competitive facilities in common territory; that it was desirable to eliminate undue competition, to encourage the interchange of traffic, and to develop friendly relationships. To this end, provision was made for equal fares, rates and charges between competitive points in Canada. The gross receipts received by the companies in respect of all local and freight traffic were to be divided in proportions to be agreed upon by the managers of the railways; and, in case of dispute, by Samuel Sloan, Commissioner of the American Trunk Lines. Interchange of traffic was to be provided for; loaded cars were to be allowed to go through without break of bulk; freight rates from local stations on the Great Western to Toronto for points east on the Grand Trunk were to be the same as charged on the Great Western from same points to Suspension Bridge. The rates charged by the companies in respect of traffic from and to local competing stations west of Toronto, to and from the terminal stations of Toronto and Hamilton Wharf, were to be the same; through rates from Montreal to stations west on the Great Western and vice versa were to be agreed upon. The Great Western was not to charge lower through rates via Hamilton Wharf in connection with boats than the through all-rail rate agreed upon; but if the boats to and from Hamilton charged less than the all-rail rate agreed upon, then the Great Western was to be free to charge local rates on traffic to and from Hamilton Wharf. Teaming of freight to and from competitive points was to be given up; passenger connections were to be arranged; the agreement was to be terminable on three months'

notice, but in the case of matters in dispute which could not be settled in Canada in the first instance, these were to be brought before the respective boards of the two railways in England. Joint action was to be arrived at in regard to new competing lines west of Toronto; arrangements might be made for joint work of stations at connections. In general, matters in dispute were to be settled by an arbitrator to be appointed by the Chief Justice of Ontario. This comprehensive agreement was to run for seven years; but, in a short time, quarrels began to develop and early in 1868 there were rumors of difficulties in regard to the duration of the agreement.

Attempts to work out pooling arrangements developed almost yearly. A few references will be sufficient to show the disturbed conditions existing. At a Grand Trunk meeting in October, 1875, the Grand Trunk directors were authorized to complete arrangements with the Great Western regarding apportionment of traffic at congested points. President Childers, of the Great Western, at a meeting on November 11th, 1875, claimed his railway was not responsible for the existing difficulties. The presidents of the two lines now came to the conclusion that the two managers in Canada should endeavour to arrange equal rates and, also, provide for distribution of receipts at the points where the two companies were competitive. This was approved by the Great Western at the meeting in question. On the other hand, at the Grand Trunk meeting on October 26th, 1875, President Potter claimed that an attempt to obtain satisfactory arrangements with their competitor in regard to maintaining a higher rate basis, as well as the division of freight, had not worked out well, and this was due to the general manager of the Great Western.

An attempt to arrive at an agreement in 1875 was interfered with by the rate war which was then operative, and the matter of an agreement was taken up in 1876. A different proposition was submitted in that year by the Grand Trunk to the Great Western, the main points of which were as follows:

- (a) that the two undertakings should, at the earliest date, be placed under one authority;

- (b) that both were to be governed by a general committee;
- (c) the net revenue to be divided according to the proportions to be determined by arbitration;
- (d) the facts upon which the arbitration was to be based were to be those of January 1st, 1875, to June 30th, 1876;
- (e) the capital of the two companies to remain separate.

While President Potter was stating in 1876 that it had so far been impossible to obtain a satisfactory basis for pooling arrangements, the Great Western report was stating that the Grand Trunk had suddenly put an end to the agreement on March 30th, 1875, and had commenced a series of extreme reductions of rates and fares, selecting especially those districts in which the Grand Trunk's business was proportionately smaller and that of the Great Western the largest. This, the Great Western claimed, was part of a scheme whereby it would be forced into amalgamation with the Grand Trunk.

Without attempting to go into the records of the agreements and discussions year by year, sufficient may be given to show that there was a continuing condition of unrest. In September, 1877, an agreement was entered into between the two railways. Under this, the executives of the two companies were to be required to maintain rates and fares for local and foreign business; the rates and fares to be equal except where equality was impracticable or so manifestly unjust as to necessitate different rates; that no rate or fare in traffic agreement so settled was to be disturbed except by agreement between the executives. The agreement was to take effect at once, and its continuance was to be dependent upon its confirmation by the boards of the two companies. In case of difficulties, the matter was to be settled by arbitration.

This was agreed to by the executives of the two railways. However, it lasted only a brief period. In the latter part of 1879, the Great Western proposed that a standing arbitrator should be appointed and that all competitive traffic should be pooled on agreed-on percentages. It was proposed this should be a two-year arrangement.

In 1876, the Great Western had offered to lease the Grand Trunk lines west of Toronto for £225,000 per year. The Great Western stated this was:

Simply to go back to the original policy of the Canadian Government and the legislature that the Grand Trunk should go as far as Toronto from the East, and that we should go from Toronto westward; that we should not compete with one another; that we should have their lines to the west; and that we should stand as it was intended in 1852, with the addition of our paying the heavy sum for the unnecessary lines constructed to the westward.

Three years later, President Tyler, of the Grand Trunk, argued that the fusion of receipts, under joint management, would mean to the companies an economy of at least £225,000 annually; that there would be economies from the discontinuance of duplicate trains and from the abolition of duplicate agencies in Canada and the United States; that there would be economies from uniting staffs at competitive stations; that there would be reductions in advertising and general charges; reductions in general offices in London and Canada; and increased rates on competitive traffic over a great part of both systems caused by elimination of competitive bidding of freight agents.

The recurrent theme of half-yearly reports may be summed up in terms of rate wars and competition. The press from time to time put forward incidental complaints about the run-down condition of the rolling stock.

At a meeting of the Grand Trunk directors in January, 1874, the president said that the Montreal-Quebec line did not pay; that there was water competition in the summer and lack of traffic in the winter. Passengers were carried by steamers a distance of 160 miles for \$1.00 including staterooms and supper. Freight rates were said to be very low on account of water competition. A barrel of flour weighing 200 lbs. was carried by water for 5 cents from Montreal to Quebec. In the summer of 1874, the Grand Trunk stated it could not get any passenger traffic from Montreal to Quebec.

In 1874-75-76, there were rate wars between the Grand Trunk and the Great Western. The Grand Trunk in competition with the Great Western and its connections claimed that its longer mileage entitled it to differential rates. Passenger rates of 1876 from Toronto were cut from \$6.00 to \$4.00,

while from Buffalo to Detroit the rate was cut from \$7.00 to \$4.00. The disturbed conditions led the Grand Trunk to propose that larger shippers should supply their own rolling stock. In 1876, the train service was cut by 30 per cent.

Conditions had been so strained in an earlier year (1867) that the New York Central, which was engaged in a rate war with the Grand Trunk, refused to sell tickets over the latter or accept tickets from it. The Grand Trunk met this by a cut in rates in co-operation with the New England roads between New York and Boston.

In the discussions of 1876, as in other years, recriminations were indulged in as to which line was the originator of the rate problem. For example, in the half-year report ending June, 1876, the Grand Trunk complained that the break was due to the Great Western being influenced by the New York Central, and that the New York Central had forced the Great Western to join it in a rate war which was then being waged against the trunk lines to the seaboard.

The Great Western retaliated by stating that while it had been carrying on negotiations in the earlier part of 1876 with the Grand Trunk, the latter suddenly engaged in a rate war with the American companies; and disregarding the agreements which were being discussed, they reduced rates and fares and tied up their contracts in advance, taking throughout a hostile position to the Great Western.

Amalgamation was discussed from time to time; but the Great Western took the position that because of its relation to American through traffic, amalgamation would be disastrous. It obtained such mental satisfaction as there was by saying that the Grand Trunk was the Ishmael of American railways; and it was claimed that all the rate problems really arose from the fact that the Grand Trunk claimed a differential on account of its longer mileage.

While the Grand Trunk thus participated in rate wars and in the carriage of long hauls of American traffic at low rates, as early as 1867 doubts as to the wisdom of this brought out the opinion enunciated by President Tyler in his report of that year when he said that the rates were on a very low basis. Foreign traffic via Sarnia and Portland averaged 92/100 of 1 cent per ton mile. Referring to westbound

movements, he stated traffic from Portland to Chicago was sought to fill up otherwise empty cars; and at the same time he questioned if, on account of the low rate, the company would not be better without it.

From about 1875 onward, the Grand Trunk was actively concerned with the problem of obtaining closer relations with the Great Western, this being tied up to the Grand Trunk obtaining a general dominating position. The rate wars in which the Great Western had been engaged were embittered by its feeling that it had been unfairly treated in regard to the districting of railways. The Grand Trunk, by the policy of expansion pursued, rendered it more and more difficult to obtain the elimination of paralleling. At the same time, some of its activities were based on the idea that it had vested rights.

The North Shore Railway from Montreal to Quebec was attacked by Potter, the president of the Grand Trunk, on the ground that the project interfered with the natural development of the Grand Trunk in sections which would be tributary to it. The results of the discussions which took place resulted in Potter resigning.

In 1879, Childers, the president of the Great Western, resigned, because to quote his own words, "he could no longer resist fusion with the Grand Trunk". In 1881, a proposition was submitted by the Grand Trunk for taking over the Midland Railway. This was to cover a consolidation of the Midland, the Toronto & Nipissing, the Grand Junction, the Whitby, Port Perry and Lindsay, and the Victoria Railways, giving a mileage of 416. It was stated by Tyler:

The affiliation of such an important combination to the Grand Trunk System must result in great advantage to the Grand Trunk in securing to it the traffic to which it is entitled, and in preventing injurious competition with which it has of late been openly threatened.

It was also stated that this system, when combined with the Grand Trunk, will give the shortest route from the Upper Lakes to Montreal and the Atlantic. This combination was effected in 1884.

The Grand Trunk still desired to obtain closer relationships with the Great Western. The development of the Cana-

dian Pacific was coming above the horizon, and this had quickened the activities of the Grand Trunk which believed that the Canadian Pacific, in its programme for building lines into Ontario and Quebec, had in mind the acquiring of the Great Western as a means of communication with southwestern Ontario. In the meantime, the position of the Great Western as a participant in traffic carried by American railways had been weakening. In 1868, the Canada Southern was chartered. It was opened in 1873. By 1878, it came fully into the Vanderbilt group and under the operation of the Michigan Central. The result was that the United States tonnage hauled by the Great Western fell off, decreasing by almost two-thirds in the periods between 1878 and 1882.

While in 1881 the Great Western issued a circular contending that there had been a constant improvement in the condition of its property and that any agreement which might be arrived at between the Grand Trunk and the Great Western would jeopardize the United States business of the Great Western, conditions proved too strong for it. A change came in 1882 and a consolidation of the Grand Trunk and Great Western was effective.

When it became evident that the Canadian Pacific intended to have its own lines of connection in the provinces of Ontario and Quebec, strong opposition was shown by the Grand Trunk. Tyler, at a Grand Trunk meeting in June, 1882, expressed the hope that those who were investing in the Credit Valley Railway would not lose their money. The hope was apparently a qualified one. The general position of the Grand Trunk was that the existing facilities in Ontario and Quebec controlled by the Grand Trunk should handle the traffic to and from points of connection in the west with the Canadian Pacific.

In 1883, negotiations had so far proceeded that a draft agreement was entered into between the Grand Trunk and the Canadian Pacific. The general object was to afford facilities and avoid duplication. The Canadian Pacific, for example, undertook to cede, on terms, to the Grand Trunk the Credit Valley Railway and the Quebec, Atlantic & Northwestern Railway. These negotiations, however, proved to be futile.

The strained relations which now developed may be gathered from the remarks of Tyler, who, in speaking at a Grand Trunk meeting on March 29th, 1883, said:

They [the C.P.R.] have come into our territory in different directions and have acquired lines of railway and have entered upon schemes of aggression.

The Grand Trunk, he said, was not opposed to the Canadian Pacific Railway. While he said that the board of the Grand Trunk had never taken any action against the Canadian Pacific in the London markets, the following is of interest:

If anybody from Canada attacks our united system, it is not necessary they should meet with any opposition from this Board, because they are attacking the interest and attacking the pockets of the whole of this vast proprietary of 20,000 people who have vast influence in assisting subscribers for any purpose that comes before them, and that is the enemy they will have to encounter. It is not with this Board. We may sit still . . . You will take care of yourselves in this matter; and as long as the Canadian Pacific comes to attack us in our territory and promote schemes of aggression against us, I know the consequences they will bring upon themselves.

With this comes the beginning of a new era—that of the significance of the west in the transportation development and problems of Canada.

THE AUTOMATIC GOLD STANDARD AND THE NECESSARY MODIFICATIONS

A. B. BALCOM

The gold standard is on the defensive. The weighty attacks launched against it by monetary theorists, coupled with the recent action of leading nations in again suspending its operations, have greatly weakened its prestige. Friend and foe are engaged in vigorous debate. The purpose of this paper is to bring into clear relief the salient points in the discussion. I shall consider first the advantages and disadvantages of the gold standard in general, and then I shall discuss, briefly, the functioning of that standard under abnormal conditions of the present, and its future prospects. Although my conclusions may sometimes be stated with dogmatic assurance, you will understand that this is made necessary by the brevity of treatment, and is in no wise intended to imply that the last word has been said on controversial questions.

The gold standard may be defined as that monetary system in which gold is the standard for measuring all economic values. Whether a country is, or is not, on the gold standard is a matter of fact, and not of theory or of opinion. This standard is established by laws providing for the free coinage of gold at a definite ratio, and as full legal tender, and for the redemption of all other forms of currency in gold at the option of the holder.

There are at least three weighty advantages of this system which deserve attention. The first is that a gold reserve gives confidence in credit currency, and thus insures its ready acceptance. So long as the holder of government or bank promises-to-pay knows that these will be redeemed in gold at his pleasure, the value of these credit instruments becomes identified with the value of gold, and thus intrinsic worth is imputed to the paper promise. Indeed so deeply ingrained has this habit of thought become it is difficult to predict how much of a strain it would stand. Recent experience has shown that temporary suspension of the redemption privilege may have little effect even though accompanied by marked varia-

tions in the value of the dollar. But would this confidence continue after people became aware of the new order? Would not the ready functioning of credit be endangered? Hoarding on a large scale, and the flight of liquid funds in countries where people have become impressed with currency uncertainty, is pertinent evidence of the reality of this danger.

A second advantage of the gold standard is that it places an automatic control on currency expansion. The fact that governments and banks must provide for all possible demands for gold, automatically checks tendencies towards credit inflation. The grave dangers which lurk in uncontrolled inflation are so great that, until some other control equally effective is devised, the gold standard, by warding off those dangers, must be credited with performing a most valuable service.

A third service of the gold standard is that it automatically stabilizes the price of foreign exchange within the limits set by the gold points. This means that all foreign investments, all commodities and services, in short, every item in foreign trade visible and invisible, can be expressed and interpreted in terms of the value of gold. The importance of this service in facilitating foreign trade is difficult to overestimate. As Professor Gregory recently expressed it:

There can be no question that the development of an international gold standard in the second half of the nineteenth century and the enormous growth of international trade and investment which took place are no mere coincidences. The development of the one implied the development of the other.

Two basic defects of the gold standard must also be mentioned. Firstly, in the long run there is no direct relation between changes in the monetary supply of gold and thus of the credit currency it supports, and the demand for money. Secondly, the gold standard exercises no control over the volume of currency in use during the short run ups and downs of economic activity except to automatically limit expansion. The price changes which take place during these periods are, therefore, not adequately controlled by the gold standard.

The usefulness of the gold standard is questioned by many because of its long run defect mentioned above. Recently many have been greatly concerned with an impending failure of the gold supply to keep pace with the requirement

of expanding business. An era of falling prices is, therefore, inevitable. While some of these critics do not regard slowly rising prices as unfavorable, inadequacy is generally defined in terms of a constant price level. Rising prices and falling prices are alike objectionable. To admit that the supply of gold does not vary directly with the volume of business is, therefore, to admit that the gold standard is unscientific in principle, as history shows it to be unsatisfactory in practice. The maintenance of a uniform price level is the first and greatest requisite for ironing out the violent fluctuations of our economic order, and thus for the promotion of efficiency in production and equity in distribution. Since price depends on the relation between the volume of currency and the volume of business to be transacted through currency, a scientific system of control must establish and maintain that equilibrium.

In reply the supporters of the gold standard freely admit that it is not perfect—what device of man is or ever shall be? They claim, however, that prior to 1914 it worked with a notable degree of success and that, providing the abnormalities of the present are adjusted, this system may again be depended on to function satisfactorily. They accept neither the historical nor the theoretical findings of the critics.

While the course of future prices, providing then that there is a general return to the gold standard, can only be estimated with a considerable margin of error, a long run tendency for gradually declining price levels is generally predicted. But should this prospect cause alarm? While the contention that the falling price levels during the period, 1873-96, exerted a definitely retarding influence on economic progress is frequently urged, concrete evidence adequate to establish that conclusion is difficult to discover. We know that economic causation is always complex, and that many unfavorable factors were operative during that period. To segregate any one factor and to evaluate its significance correctly is impossible. The broad fact is that the period selected was one of marked advance throughout the Western world.

Strangely enough illustrations of the historical failure of the gold standard have been drawn, largely, from experi-

ence since 1914 in utter disregard of the fact that through most of this period the gold standard was not in general operation, and that the shortcomings complained of were incidental to the managed (or mismanaged) currencies then in force. Economists of international reputation have sometimes been guilty of this obviously specious reasoning. History gives little support to the contention that slowly falling prices are incompatible with economic prosperity when underlying conditions are favorable to progress.

The theoretical basis of present attacks on the gold standard may also be called in question. Plausible as the argument for a constant price level seems, I submit that it is fundamentally unsound. Man's first great enterprise is to provide those goods which satisfy his desires. Under our present system all who make any contribution to production are unconsciously co-operating towards the fulfilment of that objective. In order that this co-operative system shall operate, some device must be used to express the contribution of each towards that ultimate purpose, to carry forward these contributions cumulatively through the several stages of this round-about process, and to measure the share each contributor shall receive of the total. Money is the accounting device man has devised and improved for the accomplishment of those purposes. What money measures, is, therefore in the last analysis, the efficiency of labor in this complex productive process. But efficiency is not a constant, it is always changing. Throughout the entire process of production, now here, now there, man is always discovering new ways to make his efforts yield greater results. A scientifically sound monetary system must give expression to these changes. Wherever and whenever improvements occur, lower prices should obtain, measuring these improvements. It follows that the price level, a composite measure of all these particular improvements, should likewise show a declining tendency in a progressive society. This, be it noted, is not a mere theoretical abstraction. It involves a sound principle of public policy, for lower prices is a means by which the benefits of economic progress are automatically shared in by all. The theory of a constant price level falls down, therefore, because that which it measures is not a constant, but a variable.

How then shall we proceed to insure that prices shall always exactly measure that which they represent. My answer is that it cannot be done. While the efficiency of labor is one of the most familiar concepts in economics, no economist would contend for a moment that it can be defined in such a way as to be dealt with objectively with certainty and precision. It embraces the idea of a complete unit representative of every type of productive effort interpreted in terms of human desires. But, in spite of its vagueness, this concept is a reality and has an important application to the subject under discussion. If the future course of events shall show a secular trend towards greater productive efficiency on the one hand, and towards a lower price level on the other hand, as now appears likely, this will indicate a sound monetary system rather than the converse. Indeed it may well be that the gold standard, so far as secular trends are concerned, will give as close an approximation to theoretical perfection for many years to come as is humanly possible.

The admitted defect in the gold standard connected with its failure to control the volume of currency in the short run has also given rise to significant criticisms. The most general of these criticisms finds in the operation of the gold standard the basic cause of economic depressions with all their attendant evils. In good times, business grows, currency expands, prices rise. But suddenly, in obedience to the imperative demands of the gold standard, the brakes are applied. Currency is contracted, prices fall and disaster overtakes business. The basic cause of the trouble is inadequate consumer purchasing power. The remedy is currency expansion applied when danger is imminent. Since the gold standard demands contraction not expansion of credit, it must be held primarily responsible for the dire consequences which follow.

This criticism is open to serious objections. In the first place, it is an inadequate analysis of the causes of depressions. While a comprehensive study of those causes is beyond the limits of this paper, it should be pointed out that man's intellectual limitations make it impossible for him to plan and organize this vast system of production, anticipating human desires months or years in advance without many and serious misdirections of effort. Man's moral limitations make it cer-

tain that the many enticing opportunities open for predatory practices will not be overlooked no matter what disastrous consequences follow. As the effects of all this misdirected and predatory effort accumulate, a break must come. There is no escaping the consequences. Society must pay the price for ignorance and wrongdoing. The neglect of these fundamentals by so many today is difficult to understand. As I see it, it is one of the most prolific sources of fallacious reasoning concerning the causes and remedies for present world conditions.

A second objection is that the wrong remedy is prescribed and at the wrong time. Once upon a time there was a boy who spent his Christmas as boys are wont to do. Next morning disturbances in the region of the anatomy, known as the "tummy" induced mother to call the doctor. After due examination the doctor inquired what the boy had eaten the day before. "Oh! turkey, plum pudding, mince pie and chocolates." "And did he enjoy himself while eating these things." "Oh, Doctor, he had a lovely time." "Ah, then the case is clear! What he needs is more plum pudding, mince pie and chocolates." We all know that is not what the doctor said. The remedy prescribed was not so pleasant, but it was far more effective. Those who advocate currency expansion at the time when difficulties are appearing are seeking a plum pudding remedy for economic indigestion.

The real problem is to prevent uneconomic developments during the expansion. In so far as this is a monetary problem it is the prevention of increases in the general level of prices rather than decreases. It calls for less bank credit during the up-swing rather than more when the breakers are in sight. It is monetary policy supplementary to the gold standard, while the expansionist policy necessitates the suspension of gold redemption. The aim is to regulate the volume of currency so that it shall at all times conform to the requirements of legitimate business enterprise. Since this in no way jeopardizes the values of the gold standard, and may result in an important addition to that system, experiments within reasonable limits, seeking to develop a technique of control should be welcomed.

One may further inquire if the phenomena of the business cycle are entirely, or even primarily, problems of price stabilization. It is true that uneconomic and predatory business activities are greatly stimulated by rapidly rising prices. But is it not also true that these practices occasion currency expansion and thus, in general, cause higher prices. While this is a general tendency, there are important exceptions. When bank credit is used to finance speculation in land values or on the stock exchange or when it is used as a temporary substitute for savings to finance the sale of foreign securities, the result on commodity price levels is neither direct, immediate nor in proportion to the credit issued. In view of these facts, the price-control approach to the problem would seem to be inadequate.

A careful examination of current criticisms of the gold standard shows that most of these rest on three assumptions. First, prices can be adequately regulated by maintaining a constant ratio between the volume of currency and the volume of business. Second, that index numbers reflect price changes with sufficient accuracy to serve as a basis for currency regulation. Third, that central banks through changes in rediscount rates open market transactions, etc., can fulfil all reasonable requirements of control. Let us examine these briefly.

The first is an undue simplification of the quantity theory; $MV + M^1V^1 = PT$ or some similar formula is helpful as a point of approach to a study of all the factors involved in price changes, and in tracing the long run control of M over P . But to assume a similar short run control of M^1 over P is not warranted by the facts of experience. As was pointed out above large credit advances are frequently made which have no direct relation to commodity price levels. Moreover, it is common practice for sales to be completed at prices fixed before the credit covering those sales is advanced, and these prices may reflect either an increase or a decrease per unit transaction. In such cases the currency changes are a result rather than the cause of price changes. More accurately both are reflections of those complex forces expressed through the general relations of supply and demand on the commodities markets.

Secondly, the science of statistics has made great advances in recent years, and index numbers are most helpful tools in the study of economic problems when used with discretion. But the facts just stated warrant the conclusion that no commodity index number can meet the exacting demands of a guide to credit control. Moreover, prevention is the slogan of currency reformers, and preventive policy must anticipate trouble a considerable time in advance, not merely measure it after it is present.

Thirdly, all will admit that variations in rediscount rates, open market transactions, etc., are most important features of central bank policy. But as methods of currency control, they are defective in at least two respects. Firstly, they are ineffective whenever and wherever credit issuing institutions have sufficient resources to act without support. Secondly, at best they exert control over the volume of credit only, not over the purposes for which credit is used. But the latter is the more important since any policy for decreasing the fluctuations of the business cycle which promises success, must exercise a powerful restraining influence over uneconomic developments during expansions.

The conclusion to which this discussion leads is that the alleged long run inadequacy of the gold standard has sufficient support neither in theory nor in the lessons of experience. While the price variations of the business cycle reflect a serious condition, it is not clear that this is primarily a monetary problem. A saner view locates the trouble in the shortcomings of man and in the complexities of economic life.

The operation of the gold standard under the abnormal conditions which have existed since the war, the causes and consequences of the recent suspension of that standard by leading nations, and the possibility of restoring it to its pre-war dominant position call for brief consideration.

Among the complicating influences which are significant for this discussion may be mentioned: (1) national debts directly attributable to the war or incurred at war time price levels; (2) inter-governmental debts including reparations; (3) long-term debtor obligations, and short-term "frozen" obligations of private individuals and concerns; (4) tariff

increases and expansions—those irrational fear responses to world disorder; (5) maldistribution of the monetary gold supply; (6) interference with price responses to gold movements by direct control of currency either with or without suspension of the gold standard; (7) increasing rigidity of the economic structure. It is well for us to remember that beneath these disturbing conditions are the unscientific monetary policies adopted during the war, the unsound methods of war finance and the exactions imposed on defeated enemies, unjust as well as impossible of fulfilment. We should keep in mind also the psychological factors, ignorance, jealousy, greed, uncertainty, fear and national chauvinism, which were so largely determinative of war time and post-war policies and which, unfortunately, are still dominant in shaping internal and international politics.

There are many who contend that with conditions as they are, the normal functioning of the gold standard is impossible. Some of them go so far as to say that the main cause of the present world depression lies in unwise efforts to restore and maintain that standard. A larger number hold that currency inflation under a system of managed currency is the first and greatest requisite for restoring prosperity. It is pointed out that the sharp price declines since 1929 have placed an intolerable burden of debt on governments and individuals alike. The multiplication of tariff imposts by restricting the free flow of international trade, hampers the payment of external obligations in economic goods, the only way in which these debts can ultimately be paid. The concentration of gold reserves seriously upsets the monetary systems and undermines the financial structure of those countries with an inadequate gold supply. So business is hampered, widespread injustice arises, and constant friction in international relations develops. If currencies were inflated and prices and money income restored to approximately the level which prevailed when present debts were contracted, all the debtors as a class would benefit greatly. Governments would find it possible to raise larger amounts through taxation with less discontent. Private obligations could be met more promptly and certainly. Costly liquidations would no longer be forced. So confidence would be restored, business

would be stimulated, prosperity would return, another era of progress would be at hand.

This sounds plausible and enticing, but there are obvious difficulties in the way. It is pertinent to inquire how inflation would be made effective. When business is booming and business men are insistently demanding advances, credit expansion occurs without difficulty. In manufacturing and merchandising prices are marked up, and bank credit issued covering sales invoices creates the additional currency necessary to finance transactions at the higher prices. These ordinary business practices, diffused and cumulative in operation, lead on to higher and yet higher price levels until something checks advance. But without an active demand for funds, this quasi-automatic method of lifting prices is inoperative. Neither the ability nor the willingness of banks to expand their credit issues is of avail. As a leading Canadian banker remarked a few months ago: "If the banks were to offer funds without any discount charges, the effective demand would increase but little." It is noteworthy in this connection that the lowest rediscount rate in the history of the Federal Reserve System has had no noticeable effect on prices in the United States. If, therefore, currency expansion is to occur on a scale which will enable it to accomplish what its advocates claim for it, some extraordinary method of injecting the additional currency into the monetary system must be employed. How could this be done?

The method that has been most widely advocated to secure immediate currency inflation is for the state to become the sponsor of expansion by wholesale employment on public works. When properly controlled this policy has long been advocated by economists as a means of alleviating the unemployment incident to depressions. But the success of this policy depends upon planning and preparation months in advance, and limiting undertakings to those which fit into a well-ordered scheme. Moreover, the new currency put into circulation must be large in quantity if it is to be effective. Canada's experience in recent months is a pointed reminder of the importance of both these limitations. It would seem doubtful, therefore, if much can be expected from this pro-

posal so far as the solution of our present difficulties are concerned.

There is another task confronting the inflationist. Suppose inflation were effected, how would it be controlled in volume and in purposes for which used? The difficulties of control, within the limits set by the gold standard, considered above would be multiplied if present proposals for inflation were carried out. The rate of price increases would be greater, the range of variation would be wider, and no check to expansion would be autocratically imposed by gold. How then would the diversion of funds into all those misdirections, manipulations and predatory speculations so characteristic of periods of rapidly rising prices be prevented? Unless these activities were kept well under subjection, the seed would be sown for another severe depression. Suppose inflation were accomplished, by what means would expansion be curtailed at the proper time? Obviously any sudden reversal of credit policy would be exceedingly dangerous because of the difficulty of adjusting manifold business activities to sudden changes in bank accommodation.

As a final criticism it may be pointed out that there is a widespread tendency among inflationists to confuse the causes of the present depression with those world-disturbing circumstances noted above, and to ascribe to the latter a significance in interpreting present conditions that belongs only to the former. Those abnormal world relations did not cause the depression, nor do they make economic recovery and expansion impossible. They did intensify the adverse circumstances out of which the depression sprang, so made it more wide-spread. They do retard recovery. They act as a powerful brake on the wheels of progress. They are a constant irritant in international relations, and, therefore, as an ever-present threat to peace, harmony and goodwill among the nations. It is, therefore, imperative that every effort shall be made to accomplish their satisfactory settlement. But had these all been adjusted ten years ago, recurring expansions and depressions would still have been with us. The present depression does not differ from others so far as the nature of immediate causes are concerned. Indeed, in no previous period of expansion were those uneconomic and anti-social

practices which inevitably lead to reaction more clearly present than during the months immediately preceding the break in 1929. We are now suffering the consequences. The "elimination of the unfit" practices and industries, the disposal of accumulated surpluses where overproduction occurred, and the redistribution of misdirected productive effort so that it shall most effectively satisfy the ultimate test of its value, its capacity to satisfy human desires, must go on until the body economic is thoroughly purged. When that is consummated, we shall again be ready for the up-swing. An earlier recovery is improbable and certainly undesirable. Just when and where the initial impulse will come is difficult to predict.

If this course of reasoning is sound, we are forced to the conclusion that inflation provides no short cut out of the present depression. It is true that when revival comes, currency will expand, and prices will rise. Those countries which have recently suspended the gold standard are not likely to limit expansion by any gold standard considerations. Nevertheless, I submit they would be well advised to do so. The nearer the expansion is kept within the limits that would be imposed by the gold standard operating under a normal distribution of the world's gold reserves, the closer will be the conformity to an international determination of price levels, the less will be the disturbance of international trade, the less will be the dangers of inflation, and the easier it will be to return to a gold standard when world conditions are more propitious.

A second conclusion to which our reasoning leads is that monetary reform will contribute little to the solution of the exceedingly intricate and difficult problems of world readjustment which today challenge the intelligence and moral fibre of the race. These problems involve delicate questions of national economics and international politics, and their solution must be as diverse as are the problems. Those who attempt to reduce this confusion to a monetary basis are permitting their enthusiasm for their particular field of specialization to warp their judgment concerning larger issues. The converse contention, namely that the settlement of world disorder will contribute greatly to the satisfactory func-

tioning of an automatic gold standard has more substantial support.

It may be predicted with confidence that world conditions will gradually clear up in spite of our fears, jealousies and blunderings. And may we not also hope that kindlier feelings and wiser councils will soon prevail? The initial impetus will come with the lifting of the fog of depression which now clouds our visions and chastens our spirits. As the first rays of the sun break through the enveloping clouds what a transformation will occur! How soon we will all again be singing:

God's in His Heaven
All's right with the world.

As confidence returns with an approach to normalcy there are good grounds for anticipating that the tariffs of the nations will be placed on a more rational basis to the great advantage of all concerned. The price increases which prosperity will bring will go far towards restoring more just relations between debtors and creditors. Should this prove inadequate, writing down obligations by direct legislation would be simpler and more ethical than an attempt to accomplish that end by currency inflation, since inflation would affect not only the debtor-creditor relation it would be attempting to correct, but also every other economic relation among all individuals, many of them adversely. Adjustment of inter-governmental debts may come by conference and compromise. If this fails, repudiation looms up as a possibility, indeed as a probability. With these obligations settled, a more normal distribution of gold holdings will gradually be brought about through a shifting in commodity exports and imports, through foreign loans by investors in France and the United States and through direct gold loans by the governments of those countries to countries with an under supply of gold. Since the maldistribution of gold reserves has been the major cause for direct interference with the normal response of prices to gold movements, the modification of that policy will naturally follow from a correction of its cause. As these adjustments occur, the way will be opened for a return to the gold standard in full confidence that it will again function satisfactorily.

The essential condition for restoring the gold standard to its former position as the safest and most efficient monetary system man has yet devised is the adjustment of those socio-economic abnormalities inherited from the Great War. Nothing more is necessary; nothing less will suffice.

This does not mean that there will be no monetary problems left to solve. Nor does it imply that nothing has been learned from the trying experiences, the monetary experiments, and the concentration of thought on monetary questions during recent years. It does mean, however, that there is no need for rash experimentation. There is a margin of time which should be used for the careful analysis of the lessons of experience, for the crystallization of our theorizing, and for the formulation of definite changes in monetary systems.

The many interesting proposals for reform may be helpfully classified as to purpose as follows:

A. Suggestions the aim of which is to promote economy and efficiency in the use of gold. Among these may be mentioned:

(1) A careful consideration by bankers of the possibility of reducing reserves carried.

(2) Reduction of legal reserve requirements. Either place the legal minimum at a much lower level, or leave the matter entirely at the discretion of the banks concerned as in Canada.

(3) More harmonious relations between central banks and commercial banks, so as to facilitate credit issues, and conserve the use of specie.

(4) Means for protecting gold exchange standards. If this device for economizing gold is to prosper, countries possessing deposits at London, New York or elsewhere for the support of their currencies must be better protected against possible depreciation in the pound, dollar, etc. Conversely, centres holding such deposits must be better protected against their withdrawal except to meet the legitimate demands against monetary reserves.

(5) Measures designed to reduce gold transfers in settlement in international balances caused by seasonal or other short-time variations in international trade.

(6) Regulations to prevent undue pressure being exerted on the monetary reserves of any country by international short-term dealings in liquid funds.

(7) Increased consultation and cooperation among central banks to promote the above ends.

(8) Enlargement of the functions of the Bank of International Settlements as a bureau of information, and as an agency for consultation and co-operation among the central banks.

Doubtless there is much in these proposals that will materialize in time. Their realization, however, can only come gradually since they involve either changes in national habits and customs, legislation or international cooperation.

B. Proposals which aim primarily at more effective control over the volume of credit issues, and over the purposes for which currency is used may be listed:

(1) Clearer appreciation of the objectives of control, and greater determination to prevent uneconomic business activities no matter by whom sponsored.

(2) Modification of banking structures so as to secure greater centralization of control.

(3) Development of an adequate technique of control.

C. Co-operative action among gold standard nations to write down the gold content of standard monetary units, as and when a gold shortage becomes a reality. That such a policy may, in time, be necessary, and that the growth of international cooperation will make it possible is quite conceivable. Certainly, the inherent difficulties would be far less than those presented by proposals for a managed international currency.

D. Regulations designed to make national price and wage structures less directly and immediately responsive to international influences. This is of particular interest in Great Britain where monopolistic resistance to price adjustments and the opposition to wage adjustments by organized labor intensified the strength of foreign competition during recent years. As the following shows Keynes expresses:

. . . a doubt whether it is wise to have a Currency System with a much wider ambit than our Banking System, our Tariff System and

our Wage System . . . To introduce a mobile element, highly sensitive to outside influences, as a connected part of a machine of which the other parts are much more rigid, may invite breakages.

No matter how sympathetic one may be towards this proposal it is clear that principles of far-reaching significance are involved. Should the widely prevalent monopolistic tendencies of the times be supported by rigid price and income structures, or should they be vigorously combated? Is the dream of stabilization of economic relations capable of realization in a world that is intensely dynamic? Should not any effort to make the currency system an instrument of national policy be regarded with suspicion? Should we not rather be concentrating on ways and means for internationalizing other phases of social policy? Today our economic interest, and, indeed, all our major interests are international in scope. But our thinking is still moulded in the grooves of a narrow nationalism, and we are still attempting to shape our policies in conformity with that antiquated political conception, in utter disregard of the fact that by so doing we are courting disaster. Economists can perform no greater service to their country than to lead in building up a clearer conception of the true nature of the world in which we are living, and a realization of the fact that economic internationalism and world peace are complementary objectives.

CURRENCY MANAGEMENT IN CANADA¹

A. F. W. PLUMPTRE

After the war the gold standard was reintroduced throughout the world as the type of currency management which offered the best and most immediate security from the war and post-war inflationary mismanagement. But now, after nearly ten years of experience, there are increasing demands for a new type of management which will deliver the world from the deflationary mismanagement of the gold standard. Conscious control of credit is desired as an alternative to the semi-automatic and rule-of-thumb regulation which was the theoretical basis of the credit-based-on-paper-based-on-gold standard into which the gold-coinage standard of classical economics has gradually developed. And it is with "a managed currency" in this most up-to-date sense that we are here concerned.

This paper makes an attempt to consider the problems of currency management with special reference to Canadian conditions. Most of the literature in the English language upon the subject of credit control naturally comes from the United States and England. It either starts by demonstrating, or ends by assuming, that a large degree of stability of "the general price level," or of some particular price level of consumable goods, is both ethically and economically desirable. The American and English writers, therefore have proceeded to investigate the possibilities of stabilizing their price levels by the various means which are available to the monetary authorities of their countries. These means include both the time-honoured interest rate policy and also the new-fangled open market policy of direct creation and cancellation of credit, the effectiveness of which as an inde-

¹ The discussion of currency management necessarily leads into technical and theoretical problems which are not suitable for a paper which is to be read aloud and discussed in a general meeting. Such problems have been excluded as far as possible from this paper; but it was thought worth while to mention a few of them in footnotes.

pendent weapon was by chance discovered after the war in the United States.²

But the economic and financial structures of those countries appear to be sufficiently different from that of Canada to warrant an entirely different attitude to the problems of credit control. In what follows it will be suggested that a policy of stability of the general price level in Canada and similar countries by means of interest rate policy or credit creation and cancellation would be not only impossible but also undesirable.

However, as an introduction both to the problems and possibilities of monetary management, as these are usually conceived, we cannot do better than to survey briefly the existing situation in England where the advocates of credit control are being particularly vociferous. England appears to be in a most suitable state at the present time to adopt a permanent policy of monetary, credit and exchange rate control. There are several reasons for this. Perhaps the most important is the general public dissatisfaction with the last six years' experience of the gold standard; and the refutation, during the last six months, of the allegation that an abandonment of gold would result in inflationary chaos in which, as Conservative politicians forecast, "the value of the pound would sink to sixpence" and the cost of living rise to starvation heights. In addition, there is undoubtedly immense public confidence in the Bank of England and the great Joint-Stock banks. Whatever policy may be adopted, it is extremely unlikely that there would be any public panic, or any destruction of credit and confidence resulting in runs on the banks. The tacit assumption of such confidence pervades the whole of the *Macmillan Report*.³ From England's point of view, as contrasted with that of the United States, this assumption seems to have been justified during the critical times through which England's internal credit has passed during the past year.

² See Benjamin Strong, *Interpretations of Federal Reserve Policy* (New York: Harpers, 1930), chap. xvi, "Open Market Operations."

³ *Report of Committee on Finance and Industry*, (London: H. M. Stationary Office), Cmd., 3897: 1931.

In the third place, England is ready for a managed currency because the Bank of England appears to have the powers and resources necessary to manage it. The Bank commands international respect, and has unquestionably a large measure of control of the London money market. Thanks to the inability of the Joint Stock banks to borrow from the Bank it has practically complete control of the volume of credit through its open market operations; these can be used, also, to force market rates of interest into line with bank rate policy, by increasing or decreasing the amount of credit available;⁴ and its ability to achieve the short run stability or long run variation of the rate of exchange will grow as its supply of foreign balances accumulate. £150,000,000 was voted for this purpose in the House of Commons on April 25th, 1932.⁵

Lastly, England appears to be in a position to abandon gold permanently because a large number, perhaps even a majority, of her leading industrialists⁶ and financiers fully appreciate the difficulties and dangers, the faults and the follies, of the gold standard as it operates in a game of international finance in which the central banks, captaining the other chief teams, are unable, however willing and internationally-minded they may or may not be, to control their own unruly members. The opinion of the gold standard, expressed before England abandoned the standard, by Sir Basil Blackett, a director of the Bank of England, is indicative of the enlightenment among the leaders of English finance:

The question, Why do banks keep gold? can be answered, I think, frivolously in several ways. I think the first, and perhaps the most important, answer is because other central banks keep gold. Perhaps another answer would be because the banks think that people think they ought to keep gold, or even because the banks think that people think that the banks think they ought to keep gold. Possibly another answer would be because the central banks are not clever enough to manage any system other than the gold standard, or they are not clever enough

⁴ *Ibid.*, sections 71, 72, 95, 98, for amplifications and qualifications of these statements.

⁵ Reported in the *Mail and Empire* (Toronto), April 26th, 1932, p. 1.

⁶ See *Report of Joint Committee of 'Federation of British Industries' and Empire Economic Union on Empire Monetary and Financial Policy* (London: Federation of British Industries, 1931).

to persuade people to think they are clever enough to manage any such system . . . The idea that you keep gold for the purpose of making the internal currency of any country, or any Western country at any rate, convertible, is one which ought to be exploded right away. It would be a tremendous gain if we could get people to understand that just that amount of currency is required in a country which is enough to keep prices stable.⁷

Other English financiers, notably the Rt. Hon. Reginald McKenna, Chairman of the Midland Bank,⁸ have been equally outspoken.

It is for these several reasons that the stage seems to be set for England to take a lead in financial policy towards the conscious control of the volume of credit in the interests of a more stable prosperity than was possible under an international gold standard. There is no other country which has possibilities comparable with those that exist in England. In the United States there is neither the public willingness nor the central control. Federal Reserve Board efforts might be nullified by a breakdown of public confidence, such as occurred during the past year, by member-bank borrowings and repayments which may offset the open market policies of the Board and by the more rigid legal limits within which they operate. The Bank of France is apparently unable to control the currency and credit of France, partly because it is legally unable to pursue an open-market policy of expansion and contraction, partly because it competes directly for public business with the other French banks which are therefore unwilling to use its discounting facilities, and partly because the views and the fears of the French public, the French press and the French politicians naturally restrict its actions to a policy which is in line with what superior Anglo-Saxons are prone to call the "French peasant-mentality."

What are the possibilities of credit control in Canada? It should be clear, from what has immediately preceded, that they are not very rosy. Canada does not possess a central

⁷ *The International Gold Problem*, Collected Papers of the Gold Study Group of the Royal Institute of International Affairs (London: Oxford Press, 1931), pp. 178-9.

⁸ Report of the annual meeting of the Midland Bank, *The Economist* (London), February 6, 1932, p. 317.

bank which might initiate a policy of control. If such a bank existed it would encounter extreme difficulty in achieving any substantial measure of control for several reasons.

In the first place, a large section of the public and its politicians are firmly joined in holy matrimony to the ghost of a departed gold standard which had been ailing since 1928⁹ and finally passed away in September, 1931. Nevertheless, there appears a growing willingness to flirt with that inconstant dowager bimetallism and a conceived but yet unborn empire currency.¹⁰ However, it may be as well that in general the national mind is innocent of schemes for direct national control of the volume of credit in the interests of economic stability. For it seems likely that direct efforts toward credit control are, at any rate in the immediate future, doomed to failure.

A central monetary authority in this country, even if it commanded confidence among the public and the financial community as complete as that of the Bank of England, would not be able to exercise the same instruments of credit control. There is no local money market in which to initiate an effective interest-rate policy which, spreading through the market in short-term loans, might affect all short term interest rates in the country and possibly long term rates also.¹¹ Money markets only seem to thrive in countries which export capital continuously or which are the repositories of foreign balances. But even if a market grew up in Canada the rates upon fluid short-term loans would be chiefly under the influence, not of a Canadian central bank, but of the much more financially powerful New York market.¹²

⁹ C. A. Curtis, "Amendments to Canada's Finance Act Necessary", *Monetary Times* (Toronto), Jan. 24, 1930.

¹⁰ *House of Commons Debates* (Canada), February 25, and February 29, 1932.

¹¹ For description of inter-relation of interest rates see W. W. Rief-ler, *Money Rates and Money Markets in the United States* (New York: Harpers, 1930).

¹² Cf. statement by A. S. J. Baster: *The Imperial Banks* (London: P. S. King, 1929), p. 206, referring to South African Central Bank: "Any move to control a developing *short* money market is sure to be defeated because the commercial banks can always escape penal rates by recourse to London."

The absence of such a market also very seriously reduces the possibility of conscious variation of the total volume of credit by central bank open-market dealings. In order that there shall be no whisper of its insolvency, a central bank must largely confine its operations to short-dated or early-maturing securities whose capital value is practically invariable.¹³ In Canada there is practically no available supply of such securities, and central bank operations upon what there is would probably be resented by the commercial banks because it would compete with them in a limited field of highly desirable, liquid investments, and because the very smallness of the market might result in central bank operations having an apparently discriminatory effect in favour or against individuals whose commercial paper was bought or sold.

Lastly, it must be remembered that credit control can only stabilize economic conditions insofar as past instability has been caused by the lack or the misdirection of such control. Certain instabilities are inherent in our economic system, in agricultural and in industrial production, and in consumers' freedom of choice. No measure of credit control will eradicate these upsetting factors. A harvest failure, other national disasters, wide fluctuations in the world prices of our raw and semi-raw material exports, a decreased desire of the United States for Canadian paper, acts of the Almighty and of the almost almighty dollar—these are beyond Canadian control and only remind us of our somewhat precarious

¹³ This limitation upon the type of assets which a central bank should purchase appears to be imposed by public prejudice as to the nature of "liquidity". Actually, since the bank is almost certain to be purchasing securities to create credit in times when depression has forced their value down, and selling them when prosperity has raised their value, the likelihood of capital losses upon actual transactions is probably negligible. The chief danger lies in the possibility that the public might lose confidence in the bank, seeing its increasing portfolio of securities which could not be disposed of without loss in spite of the fact that the bank would not sell them at such a time. But a central bank which became discredited in the eyes of the public could not continue its policy of creating credit. The possibilities of actual losses upon open market policy when carried to an extreme degree are discussed by J. M. Keynes, *Treatise on Money* (London: Macmillan, 1930), Vol. II: p. 373.

international position. No banking system, however well controlled at the centre, can afford to extend credit to borrowers whose financial position is undermined by circumstances such as these. Thus the total volume of credit in Canada is peculiarly dependent upon circumstances which are beyond any direct influence by a central authority.

We have now considered the possibilities, or rather the impossibilities, of Canadian currency management by the use of the orthodox tools and following the orthodox aims of price stabilization. The next question is whether these aims are, in fact, the ideal ones for a Canadian monetary authority?

Let us first consider the case of a hypothetical, purely agricultural country with no external trade. The fact that agricultural production is inherently unstable and uncontrollable both over long and short periods¹⁴ suggests that the ideal object of credit control in such country would not be the stabilization of prices. The object of such control is economic stability; and if prices were stabilized while crops varied widely, money incomes, and prosperity would also vary widely. Thus control should be exercised with the object of varying prices so as to offset variations in the volume of agricultural crops.

If the community under consideration is partly industrial and partly agricultural such a policy of stability of agricultural incomes, as opposed to agricultural prices, would also have a strong stabilizing influence. Increased stability of total income of the agricultural sections would result in an increased stability of the volume of their purchases from the industrial sections, and therefore in an increased stability of prices and employment, not to mention dividends, in those sections.

¹⁴ The peculiar instability of agricultural, compared with industrial, production arises in the short run from harvest variations. In the long run agricultural instability is the result of introduction of new techniques of production and new types of high-yielding seed into farming areas and populations where mobility into other employments is usually agreed to be less than that among industrial populations. The greater the immobility of the producers the greater is the likelihood that technical improvements will cause prolonged over-production and instability.

Now let us suppose that the agriculturalists are largely exporters, and sell in a world market at world prices. In this case credit manipulation can have no direct effect upon the prices of their products. Only insofar as credit manipulation affected the foreign exchange rate would these prices be affected in the home market.

The conclusion suggests itself from all that has gone before that, in a country such as Canada, any measure of control of the volume of credit must be the result, (and not the cause) of control of the foreign exchange rate. If the foreign exchange rate is kept constant under a gold standard policy, the internal credit situation will reflect any change in the total value of our exports. A decline in this value will necessarily result in a decreasing demand for credits among some exporters and an unwillingness of the banks to lend to others, no matter what internal credit policy was pursued by a central bank: and the declining money incomes of the exporters would necessarily reflect itself in the volume of purchases from those manufacturers and farmers who produced for the home market. The depression thus inevitably spreads from the exporters to the incomes of the community in general and to the public revenues.

Our discussion of the peculiar objects of control in Canada has led us to our conclusion as to the form which any such control must take. A central credit authority in Canada, if it was to have an appreciable influence upon the Canadian economic situation, would find it necessary to exert its influence primarily upon the exchange rate, through controllable items in the balance of international payments. Some of these items are more controllable than others. Any measure of internal credit expansion or restriction which was achieved would affect, in some degree, the volume of visible imports and exports. But the chief sphere of control would almost certainly be in an attempt to adjust the volume of foreign borrowing done by Canadian governments and, possibly, by private corporations.¹⁵ In addition, in proportion to its accumulated resources, a monetary authority could bring

¹⁵ In Australia this function was fulfilled by the "Loan Council," established (belatedly) in 1927.

pressure to bear for short periods upon the exchange rate by purchases and sales of Canadian funds in the New York market.¹⁶

The official policy of the past has, of course, been an exchange rate policy. The gold standard is a means of maintaining fixed exchange rates with other gold standard countries. But in any time of strain during the past six years, the gold reserves which our government makes available for export have not been sufficient to maintain the exchange rate. The chartered banks do not use their supplies of foreign exchange, particularly in the form of call loans in New York, in

¹⁶ The effectiveness of a given volume of foreign exchange operations on the part of the monetary authority upon the foreign exchange rate depends upon the responsiveness of the other items in the balance of international payments to movements in the rate. If these items are highly responsive they tend to nullify the effectiveness of the authority's operations. And their responsiveness will vary over different periods of time.

It is difficult to know, for instance, whether quite a small amount of exchange purchases during the winter months might not produce a substantial depreciation and vice versa. It seems possible that the aggregate volume of exports is fairly inelastic — being so largely dependent upon the previous summer's crop, etc. — the tourist trade is negligible, imports are also probably fairly inelastic, since for a short period trade tends to follow its well-worn grooves, and the prevailing rate of exchange will thus be dependent, not so much upon the fundamental forces of the balance of payments as upon current opinion, necessarily vague, as to what the rate should be or will be in the future. In such a situation the monetary authority would clearly be able to influence the exchange rate appreciably.

There is, of course, more than a possibility that the monetary authority will make losses on its exchange rate operations. This will happen if, on the average, it is trying to force the exchange rate away from the (fluctuating) "normal" rate determined by the balance of payments.

There seems no obvious reason, if a monetary authority which desired to affect the local situation in (say) an inflationary direction, why it should not kill two birds with one stone by indulging in an "open market policy" of purchases of foreign bills or securities. This would at once tend to increase the volume of credit at home and depreciate the exchange rate. And the operations could be carried on in a foreign country if no local money market existed. Because standardized short-term loans, such as bills of exchange, are peculiarly sensitive items in the balance of payments the absence of a local money market probably substantially increases the authority's power over the exchange rate.

such a way as to promote exchange rate stability. When another policy has appeared profitable, as was prominently the case in 1929,¹⁷ they have disregarded considerations of stability.

The gold standard policy of fixed exchange rates is necessarily a very difficult one in a country in which there may be large variations in the chief items of the balance of international payments. The variable items include capital imports but unfortunately exclude fixed service upon past borrowing. In order to maintain the standard a great deal more conscious control of the balance of payments is necessary than has been exercised in the past. Large reserves of foreign exchange or gold must be built up in fat years without internal credit expansion,¹⁸ when exports are high and borrowing is easy. These will then be available to look after the deficits on international account which will inevitably occur in lean years.

But it has already been suggested that the policy of fixed exchange rates may not be the best for a country in Canada's position; and that an exchange rate which is allowed and even encouraged to depreciate in lean years would be a closer approach to an ideal credit policy.¹⁹ To such a line of action

¹⁷ Thus the banks maintained large balances on call in New York at high rates during 1929, while the exchange rate was allowed to slip substantially below the point at which gold exports, required if the gold standard was to operate, were profitable.

¹⁸ The desire of individual corporations and governments to borrow abroad, and the willingness of foreigners to lend, is in large measure based upon prosperous or booming conditions at home. At such a time of incipient over-borrowing the monetary authority should be taking what steps it can to check internal credit expansion by sales of securities in the home market and to strengthen its international position by replacing these assets, at least in part, by purchases of foreign exchange. Insofar as it is able to check foreign borrowing, of course, it may find difficulty in purchasing the foreign exchange without depressing the foreign exchange rate. But insofar as it has checked over-borrowing, there will be less need for emergency reserves to support the exchange when debt-service would otherwise have become a burden upon it.

¹⁹ Cf. Suggestions made by K. S. Isles, "Australian Monetary Policy," *The Economic Record*, Vol. VII, No. 12 (May, 1931).

there are several objections, the weight of which it is extremely difficult to determine.

First, if the monetary authority was incompetent or swayed by sectional interests, it is possible that measures of control might degenerate into a continuous policy of exchange rate depreciation with resulting internal inflation. Thus, while a conscious policy of exchange fixity may be the more difficult, a conscious policy of exchange variation may be the more dangerous.

A second objection, and a serious one, to a conscious policy of exchange variation with the object of stabilizing the internal economic system, is that there is no experience in this country or any other upon which to base the policy or its execution. The French stabilization of 1926-1928 and English experiments in the near future, may however, throw some light on the problem.

The third objection introduces the vexed question of international borrowing and repayment, which raises several points. It is obvious that exchange rate depreciation increases the burden in terms of Canadian dollars of debts payable in foreign currencies. But it is yet to be proved that the Dominion government, in spite of its own debts abroad and the assistance which it has rendered to the provinces to meet theirs, is a heavy loser on account of depreciation. For there must be favourable effects of depreciation upon revenues, maintained by the support which depreciation gives to prices and the stimulus it gives to business: and other federal expenditures appearing in the recent budget, such as wheat subsidies and even unemployment relief grants, might have been less necessary with still further depreciation. It is just possible that a thorough investigation would indicate that the Canadian governments, as a group, actually gain from some degree of exchange depreciation.

But governments are not the only foreign borrowers. There is the host of private debtors the vast majority of whom must be injured by depreciation. It may be said that they should not be considered, because the repayment of their own past borrowing is one of the chief causes of the present depreciation. But the official gold standard policy gave them the expectation of stability. And if Canada is to continue to

import and export capital in the future, then the claims of past debtors cannot be neglected. The question will have to be faced whether the risk of exchange rate fluctuations ought to be minimized in their interests and in the interests of future borrowers.

Such an object may be achieved in two ways: either by maintaining a stable exchange rate with our chief creditor power, which in practice means maintaining the gold standard: or else by setting up some body to control the volume of foreign borrowing which will be confronted by demands on the part of individual borrowers to make good their losses upon exchange rate depreciation. The view has been put forward that we have already borrowed all we need abroad, and that, from this point of view, there is no argument against an unstable exchange in the future. But it may be assumed that international capital movements will continue.

In any case there seems to be good reason to institute national control. Lending and borrowing between individuals in Canada only affect the individuals concerned. But international borrowings and repayments affect, not only the individuals, but also affect the exchange rate or gold movements and, thereby, the whole structure of Canadian industry and agriculture.

This brings us to the close of this paper. Its object was not to state conclusions but rather to suggest the terms in which currency management must necessarily be considered in Canada. These terms differ from those which have been discussed by the advocates of credit control in powerful financial and industrial countries. In such countries, the credit controllers want to put the dog of national currency and credit in its proper place, allowing him to wag his exchange rate tail into a position of equilibrium. But the only alternatives in a country such as Canada are either to seize the tail and stabilize it, perhaps under a heavy weight of gold, a policy which will necessarily result in severe oscillations of the body economic; or else we may try to influence the position of the body by gentle but firm pressure upon an exchange rate tail, the width of whose wags we hope to be able to restrain within reasonable limits.

EMPIRE CURRENCY PROPOSALS

J. P. DAY

At the forthcoming Empire Economic Conference at Ottawa in July the Canadian representatives have been instructed to initiate and support measures for the stabilisation of the currencies of all British countries in such manner as to facilitate trade between the component parts of the Empire and to promote economic unity therein. This indicates a notable, and in my judgment welcome, change of opinion from that of nine years ago. In 1923, as today, the Empire was off the gold standard and at the Imperial Economic Conference of that year New Zealand brought forward the advisability of stabilising the empire exchanges. It was then the opinion of the Canadian representative, Mr. Mackenzie King, that the subject was primarily of interest to those parts of the Empire with sterling currency and did not affect Canada particularly. The 1923 Conference referred the matter to a special committee under the chairmanship of Sir Charles Addis and adopted their report, to which I shall make subsequent allusion, but the discussion in 1923 was overshadowed by the announcement, during the time when the Conference was sitting, of the determination of the British government to return to the gold standard as soon as possible and by the belief that such an event would soon be achieved. Today, when a return to the gold standard is no longer an unquestioned certainty and when the time of return, if ever, is indefinitely remote, the matter has more urgency and more importance.

It is well, at the beginning, to make clear that, though the subject is usually referred to as an empire currency, there is no sign of any advocacy of a real empire currency: a currency issued by one imperial authority and legal tender throughout the Empire. The practical, rather than the theoretical, objections to this are so great that it is not even being generally discussed, and will not be discussed here. What is being advocated is stability of the inter-imperial exchanges.

There is almost universal agreement that the greatest social evil of our time is the instability of the purchasing power of monetary units, that such instability can only be cured by international co-operation, and that such co-operation has not in fact developed owing to national fears, suspicions, jealousies, or ignorances. Hence the idea that what is not yet possible internationally may be possible for the British Empire and that, if the Empire can prove to the world the feasibility and advantages of a stabilised currency system, such an example would do wonders in breaking down the present obstacles to a full and effective international co-operation. We should, however, probably be deluding ourselves if we supposed that the driving force behind the demand for stability of the inter-imperial exchanges comes from such appreciations as these; the driving force comes from merchants and commercial interests actually suffering from the present fluctuations and uncertainties of the exchange.

Now, if the Empire returns to the gold standard, the matter under discussion will lose, as it did in anticipation after 1923, most if not all of its significance. As that enemy of my youth, Euclid, observed: "things which are equal to the same thing are equal to one another"; so, if all the imperial currencies are on the gold standard, the inter-imperial exchanges must *ipso facto* be at par, i.e. within the gold points, and the utmost reform that can be advocated is some additional mechanism for helping to prevent wobbling by the weaker members.

The real interest of the matter lies in what can be done if the gold standard is not restored, or until it is restored, to keep the inter-imperial exchanges stable. "Stable" here means for all practical purposes stable with sterling, and the essence of what is desired is some mechanism by which all imperial currencies will be always exchangeable at a fixed rate for sterling and vice versa; in other words, how can we introduce a sterling exchange standard? Currency co-operation within the Empire means a sterling exchange standard or it means nothing.

A sterling exchange standard is not an untried experiment. The Crown Colonies have this system and it has been operated successfully enough with the Indian currency, for

the rupee maintained its ratio of fifteen to the pound sterling from 1898 until the outbreak of the Great War. It is necessary to explain here the essential arrangements of such a standard. A dominion has a standard monetary unit equal, let us say, to one-fourth part of a pound sterling. "Equal" can no longer mean equal in gold content since the gold standard is abandoned; it must mean equal in exchange value at a time when it is agreed that the exchange values reflect correctly the relative real purchasing power of the units. The problem is how to ensure the four dominion units will always be exchangeable with one pound sterling, allowing for a very small divergence either way representing the "turn of the market" and corresponding to the gold standard fluctuations within the gold points. If this is what we understand by maintaining the parity of exchange, this latter expression is much shorter to use. The economic progress of the dominion is bound to vary in pace from that of Britain; there can be an infinite number of reasons. To take a concrete and not rare case, let us suppose that there has been over-optimism in the dominion and that credit expansion has out-paced the production of additional marketable commodities and prices have risen. The dominion monetary unit, call it a dollar, will have lost purchasing power: four dollars will no longer be worth a pound sterling and in the market, unless special arrangements are made, its exchange value will fall below parity. Now that is just what we want to avoid, and the special arrangements to be made are that some authority should be willing for a time to go on exchanging sterling for less than it is worth in dollars, to go on giving one pound for four dollars when nobody else will. It is easy to see that so long as this can be done, the rate of exchange will remain at par. The points to understand, therefore, are who should do it, why they should do it, and for how long they can do it.

One suggestion is that there should be an empire central bank—either the Bank of England or a new institution—which would be always prepared to uphold the rate by buying dollars for less than they were worth on the market. The reasons why the bank would be willing to incur this loss are (1) the ultimate gain to everyone in the knowledge of the certainty of a non-fluctuating parity of exchange; (2)

there would be a reciprocal obligation on the dominion central bank to provide dollars at the parity rate at times when the market swung the other way and the pound sterling was not worth as much as four dollars; (3) the loss on such transactions would be offset either by gains accruing from privileges bestowed on such a bank—e.g. acting as fiscal agent for the government and holding the government balances and possibly part of the dominion reserves, or having the right to issue notes — or, in the last resort, by direct contributions from the governments of the countries benefiting by the arrangement. There is no reason to suppose that on balance any loss would have to be met at all, provided that the periods during which support was needed were short. And this brings us to the crux of the matter. The fact that the exchange would otherwise have gone to a discount indicates that something was wrong; in the case cited, it was an undue expansion of credit in the dominion. The fall of the dollar to a discount, inconvenient and disadvantageous as it is, is yet the means of restoring equilibrium; it may encourage investment in the dominion, it stimulates dominion exports and reduces imports, the demand for dollars rises and the ultimate effect is to restore equilibrium, possibly not at the former parity rate. If we prevent this fall in the exchange, it is very necessary to see that the equilibrium is restored by some other method, failing which we are in the impossible position of expecting the central bank to go on incurring a constant loss in maintaining the exchange. The sterling exchange standard, therefore, is only workable if, so soon as support for the exchange is sought, action is taken to put right whatever went wrong. In the case cited, this would mean that as soon as the empire central bank began to be asked for sterling, the dominion authorities would have to see that there was a restriction of credit in the dominion. And why not? If there was an over-expansion of credit, what harm is there in correcting it? Unfortunately we have to decide these matters not on how they appear to experts assuming competent management, but on how they would appear to people and governments who do not understand the mechanism and are distrustful and suspicious of the managing authorities. Would the government of any dominion at

an intimation of an empire central bank, even though they were represented on the directorate, agree to adjust their policy? What would the people of the dominion say if they were told that their commercial banks could not go on lending them so much money, or that the government expenditure on social service, or on railway development, or on guarantees for wheat pools, was being cut down, because of the demand of a small group of financial men in London? It is not possible to govern a democracy better than it will allow itself to be governed. These are the difficulties which were in the mind of Colonel Guinness, Financial Secretary of the Treasury, when at the 1923 Conference he said:

Control of currency cannot operate satisfactorily unless, at the same time, you have control of credit. If we are to have this joint guarantee, we inevitably should have to have joint control and a great deal of interference which would be liable to cause friction between the various guarantors.

Mr. Burton, the South African representative, was even more emphatic:

To my mind it is impossible to devise any scheme for controlling credit throughout any four self-governing countries, and that is why I am sure this scheme for Empire currency must fail.

The objection, therefore, to an empire central bank is that it could not maintain stability of the exchanges without having the power of controlling credit in the various countries of the Empire and that such interference with their financial independence would not be tolerated. There is, however, another and a better method which avoids the difficulty of encroachment on financial independence and does not demand the existence of an empire central bank. Let us suppose that a dominion has a central bank able, within the usual limitations, to control the volume of credit in the dominion and that such a bank makes a practice of keeping a considerable part of its reserves in sterling in London. Something goes wrong in the dominion tending to cause an upset of the equilibrium and a fall in the value of the dollar: let us keep to our former illustration of over-optimism and too great an extension of credit. The pound sterling is no longer obtainable at four dollars and the market rate would be higher, but here the central bank steps in to help and accepts four dollars in return for letting out a pound from its ster-

ling reserves in London. Again, it is clear that the exchange rates cannot go below par so long as the central bank is willing to go on doing this, but now the dominion central bank has the power and initiative in its own hands; it is not dictated to by anybody; it can and should at once take steps to restore the proper value of the monetary unit by restricting credit at home. In this way, if its reserves in sterling are ample enough, if its control of credit at home is effective enough, and if it takes action soon and strongly enough, there should never be any reason for allowing a divergence from parity except in the face of really abnormal and tremendous national set-backs: war or earthquakes or complete crop failures. Conversely, should the exchange tend to move favourably for the dominion so that the pound will not buy four dollars in the market, the dominion central bank would take advantage of the situation to buy pounds at four dollars and so replenish its sterling reserves and, if more action than this were required to maintain parity, it would be up to the Bank of England to restrict credit in England unless the dominion bank was prepared to allow easier credit conditions in the dominion.

The scheme adumbrated in the preceding paragraph is that which was brought forward by the British Treasury in a memorandum submitted to the 1923 Conference and their conclusion was that, except in the case of Canada, the maintenance of inter-imperial parities of exchange was by no means a difficult problem and need not wait for the restoration of the gold standard. The special committee, whose report was adopted by the Conference, held the same views but expressed them more guardedly:

That where difficulties have arisen in regard to exchange between certain parts of the Empire and between such parts and the United Kingdom — (a) the position could be ameliorated if the note-issuing authorities were to accumulate sterling assets and to undertake to exchange their local currencies for sterling and *vice versa*; (b) this measure might be further developed and assisted by the creation of central banks and by mutual co-operation as recommended by the Genoa Conference.

The conclusion is, therefore, that there need be no great difficulty in maintaining stability of the inter-imperial exchanges on a sterling exchange standard and without inter-

ference with the financial autonomy of the dominions, except in the case of Canada. The exception was made on two grounds (1) that there is no central bank in Canada and no apparent mechanism for the responsible control of credit, and (2) that Canada may have good reasons for preferring stability with the United States dollar rather than with sterling, if the choice has to be made. If we have no adequate control of credit in Canada we cannot hope to maintain the exchange value of the Canadian dollar with any currency except by favourable chance. The question of how much control there is, and who exercises it, is not one on which I wish to enter on this occasion but it is worth pointing out that it is just this need for control of credit as a means of stabilising the exchange value of our dollar which furnishes the most forceful argument either for a central bank in this country or for some other mechanism which would provide leadership and effective control over the general credit policy of our competitive chartered banks.

On the assumption that improvements are made in the Canadian banking system sufficient to permit adequate credit control, there remains the question whether we should prefer to stay with the United States dollar or with sterling. It is not difficult to make a list of the interests which would suffer and those which would gain if the Canadian dollar was at a discount or premium in New York, and also a similar list if it was below or above parity with sterling. The matter, however, ought not to be decided on which of those sets of interests are the most important. In the long run what matters most is whether our money maintains a stable purchasing power so that contracts and obligations are not falsified by fluctuations in the value of the monetary unit. If we are going to tie our money to something—whether it be gold, the United States dollar, or sterling—our choice should be for that standard which will be least variable. Before the war the world was on the gold standard and it is only in comparison with present conditions that such a standard appears fairly tolerable; since the war it has proved impossible to restore the true gold standard and for most of the time the international standard has been a United States dollar and the fluctuations in value have been extreme. If it is probable

that sterling will be managed in a manner to keep steady, not its United States dollar exchange which is the wrong criterion, but its real purchasing power over commodities, then it would be to our advantage to prefer to keep with sterling rather than with a currency whose past record holds out little hope of steadiness in future.

CURRENCY PROBLEMS—DISCUSSION

F. S. CHALMERS.—It is not a difficult matter for the British people to outline for themselves a plan for a managed pound. It will not be difficult for most of the countries who are invited to join the sterling bloc—such as Australia, New Zealand, Argentina, the Scandinavian nations, etc.—to decide whether or not they will tie their currencies to the pound.

But it is much more difficult for Canada to decide whether or not a link-up with a managed pound sterling is either desirable or feasible.

Canada occupies an unique position; no other nation with large international commercial and financial relationships occupies quite the same position.

On the one hand we are closely linked with the United States by \$4,000,000,000 of freely circulating joint capital, by a huge volume of trade across the international boundary, by the powerful influences of geography. In many ways it is desirable that the Canadian dollar and the American dollar should be practically interchangeable monetary units.

But other forces impel us to make a close connection with Britain. There is the influence of traditions and sentiment; there is our realization of the vastness of the Empire opportunity; there is the ever-rising burden of tariffs between Canada and the United States; there is the current flight from gold and the fashionable tendency to managed currencies.

Between these two groups of forces Canada stands.

I think that we should not be hasty in our decision. I am convinced that the international gold standard will be restored in good season, with whatever modifications experience may have dictated. For a country situated as Canada is, a currency based upon a workable international gold standard is best. We should not throw our influence against gold so long as there is any possibility of gold being restored to favor. Our policy should be one to wait and see. What we do in currency control will have little influence upon other nations. What the big nations do will have a great influence upon us. Let us steer the middle course and withhold a final deliberation of policy so long as possible.

It might easily be very costly and dangerous for Canada to finally abandon gold and tie our whole economic life to a pound stabilized in terms of its internal purchasing power in Britain and managed at the behest of London's international bankers. At the moment—although not necessarily for all time—our economic and financial relations with the United States, a country that intends to stand by gold, are of greater importance than our relations with any other group of countries.

G. F. TOWERS.—I found Dr. Day's remarks extremely interesting, and I think he has done yeoman service in clarifying our ideas on the subject of empire currency about which we have recently heard so much.

He points out that stability of empire exchange, if it means anything, means stability with sterling, and that the real idea underlying present discussions on empire currency is, in effect, the creation of a sterling exchange standard within the Empire. Going one step farther, we must recall that there is in existence, and has been for some time, the equivalent of a sterling exchange standard in almost all the countries of the Empire. It is true that Australia and New Zealand were not able to maintain parity with the English pound; this, however, was a question of individual difficulty rather than principle, so that at the present moment, we may say that the entire Empire, with the exception of Canada and South Africa, is on a sterling basis, and that the whole discussion on empire currency can be limited to an enquiry as to whether or not Canada and South Africa wish to join the remainder of the Empire. We cannot speak for South Africa, so our interest centres on Canada.

If Canada decides to stabilize the Canadian dollar in terms of sterling, what rate should be chosen? There is little or no advantage in taking the pains of stabilizing at the present rate where we are, in effect, suspended half way between the United States dollar and the pound sterling. We are neither on the deflated gold standard, as represented by the United States, nor on a level which is really helpful to business, as in England. If we take no action, my impression is that the premium on U. S. funds will gradually tend to disappear, and we in Canada will share to the full in the benefits or disadvantages of the United States monetary system. If we stabilize our dollar at parity with sterling, we share in the benefits or disadvantages of the English monetary system. The main desideratum in currency is the maintenance of a stable purchasing power—as Dr. Day has pointed out—so that contracts and obligations are not nullified by fluctuations in the value of the monetary unit. The United States dollar, from this point of view has been a most unstable and undesirable medium of exchange in the past few years. The pound sterling followed the U. S. dollar for some time, but eventually broke loose in September, 1931, and since that date has avoided the further change in purchasing power which has taken place in the United States during the last nine months. Thus, a connection with the pound sterling would, at the moment, tend to restore in Canada a level of prices nearer to that which prevailed during the years 1922-29, and would undo a certain portion of the damage created by the events of the subsequent years. The pre-war gold standard, which I think we all respect, was in effect a standard controlled very largely by England, and by English experience and financial guidance, and to me it appears that the pound sterling has better prospects for the maintenance of stability in the future than any other currency in the world.

ROUND TABLE CONFERENCES

PUBLIC FINANCE

W. A. McKAGUE, *Chairman.*

D. C. MACGREGOR.—My remarks this afternoon might well be entitled "The Need for a Theory of Bargaining in the Theory of Taxation". It is my belief that the present form of the theory and shifting of taxation, which has undergone very little change for forty years, needs to be amplified and given a different emphasis. This is necessary in order to provide an adequate account of the shifting of taxation under the violently fluctuating conditions of the post-war period.

The present theory of taxation has two principal defects.

1. There are and always have been certain shortcomings, due to errors or omissions in applying the existing theory of distribution to the problem of taxation.

2. Shortcomings also arise from the defects of the theory of distribution itself.

A survey of the literature and history of public finance shows that Adam Smith's theory of taxation did not recognize the limitations of his theory of value. The same is true of Ricardo. The coterie of late nineteenth century writers—Edgeworth, Bastable, Seligman and Marshall—made full use of the marginal school's methods to explain the process of shifting taxes on commodities. This technique gave greater precision to what had already been said, but it did not advance the theory materially beyond Ricardo. Seligman's analysis, while it carries over into his theory of taxation all the important principles flowing from the analysis of increasing and decreasing costs, with one exception, completely alters the emphasis. All the emphasis has been thrown upon the importance which increasing or decreasing returns may have in determining the effect of a tax upon selling price. This is despite the fact that such influences are negligible in most cases, and are only likely to be important where a moderate or very high tax is levied on a group of producers which is chiefly marginal. H. G. Brown improves upon Seligman in some respects, but he too is open to the general criticism.

The foregoing argument has been designed to show that Seligman and Brown, no less than Smith and Ricardo, failed to make a careful application of the theory of value and distribution to the problem of taxation. Their weakness, when not one of omission, has been largely one of wrong emphasis, or lack of emphasis. But as emphasis is perhaps the most useful form of generalization in economic thought, serving to isolate the significant from the insignificant, a weakness in this direction may bring discredit on the whole system. It is unnecessary to

point out that the various hindrances to economic mobility, which make the difference between short run and long run results, have also been underemphasized. Surely a force which must be mentioned or implied in almost every paragraph of a work, and which is probably the greatest common factor, deserves to be isolated and examined.

But perhaps it is unfair to criticise the writers on taxation alone, when the economic theory with which they work is far from perfect in its categories and emphasis. The very choice of the categories themselves involves the picking out or emphasizing of what appear to be the most important generalities—the highest common factors and central tendencies of economic phenomena.

It would appear then that a re-statement of theory with the aid of a more adequate terminology is necessary, if the unity of the theory of distribution and the theory of taxation is to be preserved. If the theory of distribution cannot provide for it, then a separate theory of taxation, based upon a different attitude toward distribution, will probably take its place.

The needed re-statement of the theory of distribution, involving a re-weighting of emphasis, can in my opinion be provided by a further analysis of the process of higgling and bargaining in the market. The ability of purchasers to refrain from buying, and of sellers to refrain from selling, is the starting point of the analysis.

On the side of buying, the various forms of elasticity and inelasticity of demand, and their causes and limits, must be analyzed. On the side of selling, the conditions which determine elasticity of supply, must be similarly treated. Such an analysis of elasticity of demand and supply is usually taken for granted, in spite of its intricacies and importance. In my opinion, it is a mistake to take this for granted, since the peculiarities of elasticity are, just as complex as those of economic mobility. An adequate treatise on theory should include discussion of elasticity of demand according to the various types of goods demanded, and according to the characteristics of the market from which the demand comes.

More important, and much more needed in any extension of the theory of distribution, is an analysis of the elasticity of supply, industry by industry and commodity by commodity. So far, most of the theoretical discussions have concentrated upon the possibility of increasing output, and the effect on cost per unit. That is, they have been concerned with elasticity upward. The ability to reduce output is equally important—and over short periods, probably more important, than ability to expand it. Elasticity of supply downwards deserves just as much attention as elasticity upwards, but it has only received that attention indirectly in the descriptive studies of trusts, cartels and combinations, and in discussions of monopoly. It is from the ability to withdraw an agent of production from an activity relatively unprofitable, and to find an alternative one which is profitable, that strong bargaining power seems chiefly to arise.

There is no good reason why a theoretical treatise should not refer to specific commodities or industries, in discussing this power to control supply. Among all good scientists this would be quite respectable. A generalisation about mining or railroads is just as much a generalisation, as one about capital as a whole or output as a whole. It covers a more limited range, but for that reason it will probably be all the more valid. Clark's *Economics of Overhead Costs* is an example of how the more limited but more exact generalisation can be introduced into this type of discussion with advantage.

The general observations which follow from the more or less inductive enquiry into elasticity, which has been outlined above, are suggested as follows:

ON THE SIDE OF DEMAND

(1) An increasing fraction of total demand for consumers' goods is for non-essentials. This demand is highly elastic at any given moment when purchasing power is at a normal level, but the whole demand curve is likely to drop almost to the vanishing point when effective purchasing power is much below normal. It follows that a considerable proportion of those industries manufacturing consumers' goods, especially the more durable and non-essential kinds, is subject to the same erratic demand as those making producers' goods. This change, it should be noted, probably tends to accentuate the severity of business depressions.

(2) In spite of the restrictions imposed by monopolistic organizations, there is an increasing number of alternatives open to consumers, in making purchases. This lowers the bargaining power of the producers and at the same time increases the month-to-month business risks.

(3) The greater complexity of modern goods, especially machinery and buildings, has so increased the importance of joint demand, that it has rendered the demand for many commodities almost independent of the price.

(4) The growing complexity of the division of labor has increased the variety of conditions under which wage bargains are struck.

It will be noted that (1) and (2) above tend to make certain prices less stable, while (3) tends to make others more so.

ON THE SIDE OF SUPPLY

(1) The inelastic supply of labor, usually spoken of as the low bargaining power of labor, is the first and most commonly noted observation. It is subject to some important exceptions, however, as in the transport and power industries.

(2) In recent times, there has been an increased proportion of industrial financing by bond issues, largely public utilities, and in all cases there has been an increased pressure from the growing weight of total capital investment per dollar of output, whether in the form of bonds or stocks. This pressure to provide a return on the greater capital investment per dollar of output, combined with the possibility of easing

that pressure by operating plants at full time and cutting sale prices in order to push the market, makes it extremely difficult to curtail total output unless some form of industrial combination is resorted to as a means of control and as a bargaining weapon.

(3) Low-cost producers, whatever their capital investment and conditions of output, are even less likely to curtail output in times of unprofitable trade, than others. Such producers, seeing their opportunity to absorb losses and drive the high-cost producers out of business, will probably be the last to agree to a program for restricting output, and the first to break such an agreement, once it has been made. Such producers may seriously interfere with the downward elasticity of supply, and lower the bargaining power of the whole industry.

(4) The increased number of joint products, largely due to an increased application of chemistry to industry, renders the unresponsive supply of joint products a more serious problem than heretofore. Silver is the most notorious example.

(5) The increased reliance upon the specialized exploitation of natural resources, for securing the materials of production, seems to have lengthened the period of production, and/or to have increased the number of separate stages in the productive process. This makes it more than ever possible for the production of raw materials to get out of line with the demand for these materials.

(6) A significant phase of the extension of the specialized primary production mentioned above appears in those one-crop or one-product countries which, in order to maintain the value of their currency in the foreign exchanges, and the livelihood of their specialised populations who are without other means of support, demand and even subsidize unrestricted output irrespective of selling price on world markets. Whole nations now enter the competitive race for the same reason that private companies do, but with the added assistance of bounties based on the public revenues and credit.

(7) As a general rule, those engaged chiefly in trading operations—those who buy goods or securities only to re-sell them—and who employ a relatively small fixed capital and a large circulating capital, are in a better position to adjust supply to a decline in the profitability of their business without serious loss, than manufacturers and primary producers. It was not by accident that prior to the industrial revolution all great fortunes were made out of trade and finance, nor is it by accident that since the eighteenth century the much greater fortunes which have been made out of manufacturing, combined as a rule with financial manipulations, have only been made in the heyday of an industry's youth.

These observations, which are those most likely to result from the suggested analysis of elasticity, lead one to the conclusion that there are important disparities in bargaining power as between capital and labor, and internally, both within the ranks of labor, and within the ranks of capital. Especially, they indicate a disparity in bargaining power be-

tween the small scale decentralised primary producers, especially farmers, and the moderately large scale secondary producers. Also, they indicate a great disparity of bargaining power between merchant and producer, and between the large speculator, and the producer.

At the same time, the analysis of elasticity suggests that many well-known devices, including all the forms of industrial and labor combinations, and agricultural co-operation, have been devised in order to offset low bargaining power, or to increase a bargaining power already strong.

It is my belief that the causes of these disparities in bargaining power, and the various types of devices for overcoming those disparities, can be so generalized as to form a logical elaboration of the usual analysis of elasticity of demand and supply. Further, it is held that they should be incorporated, in this general form, in the theory of distribution, and utilized in the theory of taxation. Their direct bearing upon Marxian theories of class struggle needs no elaboration at this point.

If shifting is determined by bargaining power, then taxes on producers, like freight rates, are borne almost wholly by producers, whenever those producers do not exercise an immediate control over supply, and sell in a "buyer's market." It follows that such producers, most of whom fall in the class of primary producers, will suffer greater fluctuations in their selling prices when taxes and freight rates are high, than when they are low. If this conclusion is true, then the high post-war taxation, which is partially shifted under ordinary conditions, is, in part, the cause of the almost unprecedented fluctuations in the prices received by primary producers of agricultural and certain mineral products since the war.

It follows that the importance of monetary factors in the present crisis has been over-estimated. Also, it follows that the importance of tariffs and other commodity taxes in countries other than the United States and France, has been underestimated, as a cause of the present depression. Hitherto, it has been customary to look upon the tariffs and other commodity taxes of exporting countries as imposing a fairly constant additional cost upon their export industries. From the above argument it follows, however, that this cost is variable rather than constant, quite largely shifted to European or American importers in times of scarcity of primary products such as wheat, rubber and copper, and borne by ex-European and ex-United States exporters when there is a buyers' or importers' market.

It may be said, therefore, that the above argument suggests that taxation is not only indirectly important in the present economic disturbance, through the influence of tariffs on the distribution of gold, but of direct importance because of its increasingly onerous but little understood incidence, in a time when prices are already falling slowly for purely monetary reasons.

It is not the purpose of this paper to make a detailed analysis of the causes of elasticity of demand and supply. It is sufficient for my purpose to point out that elasticity or lack of it may be traced to three general types of cause, (1) the physical and physiological, (2) the psychological, and (3) the institutional conditions within which the world's work is prosecuted.

I should like to develop this matter of bargaining power and apply it to some other economic situations, such as the personal distribution of wealth, the growth of wealth, and some of the organized markets. Space, however, precludes this analysis being developed further here.

The thought may occur that this discussion of bargaining is merely an expansion of Marshall's ideas on rent, at least insofar as strong bargaining power is based on permanent physical, rather than institutional or psychological causes. But there is very little resemblance. The receivers of the economic rent of land or other natural agents, and those receiving incomes resembling that rent, from capital equipment or ability, usually have very low bargaining power. They are unable to unload their business misfortunes and taxes upon others. The manipulator of capital disposal, on the other hand, who is always careful not to tie up his money for long, who keeps his investments liquid above all things, has a bargaining power which is usually as great as the mobility of his investment, and as profitable as his own shrewdness permits.

The importance of a theory of bargaining power, as an adjunct to the theory of distribution, should now be clear. It provides an intellectual tool for the analysis of the return to capital and labor, within that wide and indeterminate range bounded by the long run deductions of early classical and marginal economic theory.

It provides an intelligible explanation of the backward and forward shifting of taxation, throwing a particular light on the nature of the disequilibrium of the price structure during business depressions. It helps to explain the causes of the conflicting tendencies toward the greater rigidity of some prices, and the greater flexibility of others, in the present depression.

More generally, it should assist in discovering the probable incidence of fixed charges, advertising costs and freight rates, which seem like taxes to be pushed now onto the buyer, then back to the seller, according to the state of trade. Clark, in his *Economics of Overhead Costs*, frequently alludes to the shifting of overhead costs as though it were automatic and constant, if somewhat difficult. But the whole trouble with overhead costs is that they are not always shifted, as Clark knows quite well. Thus far, no general analysis seems to have been made to show when and where shifting is likely to occur, and when to fail.

As the importance of fixed charges and freight rates becomes greater, their resemblance to taxes in the uncertainty of their incidence becomes more evident. A uniform method of analysis of all these kin-

dred forms of behaviour, set down as a part of economic theory and available to the ordinary student without prolonged reading of government reports, descriptive economics and history, might therefore seem to unify economic studies. It might serve to bring together theoretical discussions and those descriptive and historical branches which often wander so far apart.

The modern student is usually told that the clearest picture of the present economic order lies somewhere between free competition and pure monopoly. The present paper has endeavoured to suggest a more direct attack on the intermediate ground than that usually furnished by the theory of monopoly on the one hand, and the descriptive and historical writing on trusts and cartels on the other.

COMBINES AND PUBLIC POLICY

F. A. MacGREGOR, *Chairman*

V. W. BLADEN.—When the National Policy was inaugurated the people of Canada were promised that, after a short period of higher prices, the protected industries would expand and competition of home producers would keep prices low. It was disconcerting therefore when a Select Committee of the House of Commons (1888) found evidence of widespread combination. The Liberals pointed to the tariff as the cause; stimulated by protection many industries had over-developed, and excessive competition had led inevitably to combination, while absence of foreign competition simplified the problem of organising monopoly. The obvious remedy was to lower the tariff. The Conservatives insisted that there was no connection between the tariff and the combines. They pointed to combines in unprotected trades (e.g. anthracite) and to the difficulties of small Canadian manufacturers in face of foreign combines (e.g. watch cases). They saw, however, that in some trades the public were deprived of the benefits of competition. It was perhaps natural that they, like the government of the United States, should decide to turn back the clock of history, to force people to compete by making combination in restraint of trade a crime. An Act was therefore passed in 1889 to “declare the law relating to conspiracies in restraint of trade and to provide penalties for the violation of the same.” Under this Act, which was incorporated in the Criminal Code in 1892 as section 520, it was practically impossible to secure a conviction. Disappointed in the results, its sponsors sought amendments. In 1899 the qualifying words “unduly” and “unreasonably” were omitted. In 1900 these qualifying words were replaced, but the word unlawfully omitted. (“Every person who conspires . . . unlawfully (a) unduly to limit . . . etc.”) This made it easier to secure a conviction. In this form it now remains, being section 498 of the Criminal Code.

Other methods of controlling monopolies were tried. In 1897 the Customs Tariff Act provided for judicial investigation of any alleged combine. If it appeared that there was a combine and that the disadvantage to the consumers was facilitated by the tariff, the governor in council might reduce the duties on such articles. This regulation was slightly strengthened in the Customs Tariff Act of 1907, and appears in the Combines Investigation Acts of 1910 and 1923. This method of dealing with combines in protected industries seems eminently sound, but only once has it been invoked, in 1902, when the duty on certain kinds of paper was reduced at the instance of the Canadian Press Association. A second piece of supplementary legislation was directed against the exclusive contract system of the American Tobacco Company. The Royal Commission on the Tobacco Trade (1903) found that

this exclusive contract system operated to the disadvantage of the other manufacturers, but was not illegal. Parliament, therefore, provided a remedy by the Act to amend the Inland Revenue Act, (1904) which provided for the forfeiture of the license if exclusive contracts were used.

The Combines Investigation Act of 1910 was introduced by Mr. Mackenzie King and modelled on the Industrial Disputes Investigation Act. It provided for investigation, publicity and penalties. Any six British citizens might make application to a judge for an investigation of an alleged combine. If it appeared that there was good cause the judge was to order an investigation by a board of three, one appointed by each party and the third by the first two. Their report was to be published. The penalties were:

1. The tariff might be reduced by order in council.
2. Application might be made to the Exchequer Court for the revocation of patents.
3. "Any person reported by the Board to have been guilty, . . . and who therefore continues so to offend is guilty of an indictable offence and shall be liable to a penalty not exceeding one thousand dollars for each day after the expiration of ten days, or such further extension of time as in the opinion of the Board may be necessary."

War scarcity and inflation created new problems of "profiteering." To deal with these problems special powers were given to the Minister of Labour by orders in council. It is important to notice that under the stress of war the policy of enforced competition was impossible and some regulation of prices and profits was undertaken. In 1919 the Board of Commerce Act, and the Combines and Fair Prices Act were enacted. A permanent Board was established and empowered to restrain and prohibit the formation of combines. It was given power to investigate, and where it found a combine to exist it was to issue an order "to cease and desist." Failure to obey such an order constituted an indictable offence and prosecution would be recommended to the Attorney General of the province concerned. Under the Fair Prices part of the Act the Board was given power to deal with profiteering in the necessities of life, direct regulation again taking the place of stimulation of competition. These acts were held to be unconstitutional.

In 1923 a new Combines Investigation Act was passed, similar to that of 1910, but differing in the following respects:

1. Complaints may be made to the Registrar who will make an investigation. He may make such investigations on his own initiative.
2. The Registrar is to report to the minister who may order a further investigation by a commissioner.
3. "Every person is guilty of an indictable offence who is a party to . . . a combine." This is a reversion to the policy of 1889. It

is an important and perhaps unfortunate change from the Acts of 1910 and 1919 which had made it only an indictable offence to continue to combine after it had been shown to be to the detriment of the public.

4. If no action is taken by the Attorney General of the province concerned, the Solicitor General of Canada may allow information to be laid. This seems an improvement. It might, however, be well to revert to the clause in the Combines and Fair Prices Act which provided that the consent of the government was required for any prosecution under section 498, consent which it was obviously intended to refuse prior to investigation by a Board. This is of course essential if the earlier policy of making failure to desist the crime.

In conclusion one may state briefly a tentative constructive policy alternative to that of forcing competition. Where the combine is facilitated by legal privilege, e.g. tariff or patent rights, abolish the privilege. Where the combine arises without such legal assistance, accept it as inevitable and possibly advantageous, but be prepared to regulate and control it. Such control is dependent on adequate knowledge. Investigation and publicity are essential. For this purpose a permanent body such as the defunct Board of Commerce seems preferable to investigation by *ad hoc* commissioners. As to the nature of the control, it would have to be adapted to each special case. Where control is specially important and specially difficult, public ownership may be the solution. Where the interest of the consumer is vital, and control more possible, special boards may have to be established to control prices and limit profits. This involves the appalling difficulty of defining fair prices and fair profits, but this is a difficulty which cannot be escaped much longer. In other cases an excess profits tax (again involving the definition of fair profits) may prove sufficient. In addition it would perhaps be desirable that a government bureau should give the consumers the benefit of technical appraisal of the efficiency of the articles offered for sale, such as the private agency Consumers Research Incorporated now offers to its members. Finally one may emphasise the value of publicity, the good will of the public is sufficiently important to prevent many companies risking unpopularity by charging prices which have been declared to be unfair and unreasonable. All this of course assumes that the government is really desirous of regulating business in the social interest. If it is not, any policy towards combines becomes a matter of regulating the relations of some capitalists to the others and is of little importance one way or another to the people of Canada.

J. FINKELMAN.—The law relating to combines must be dealt with under three heads: contract, tort and crime.

The contractual aspect: Combines are formed by agreement between two or more capitalists or industrialists as to the manner in which each shall operate his enterprise and as to the mutual relations between

the several parties to the combine. If any dispute arises with regard to any of the terms of the contract or with regard to the performance of any act agreed to be performed under the contract, the matter will often be brought before a court for adjudication. One of the points which the court must consider is whether the contract is in restraint of trade and consequently illegal. At one time any restraint was sufficient to invalidate a contract. To-day, the contract will be valid if it can satisfy two tests: firstly, it must be "reasonable" in the interests of the parties, and secondly, it must be "reasonable" in the interests of the public. The "reasonableness" will depend largely on judicial views of public policy. Whatever may be the rule in relation to restraints generally, the attitude of the court, in determining whether a restraint is reasonable in the interests of the parties to a combine, is to regard such parties as standing in little need of judicial vigilance. In so far as the public is concerned, Lord Atkinson in *Attorney-General of Australia v. Adelaide Steamship Co.*, A.C. 781 (1913), said: "Their Lordships are not aware of any case in which a restraint, though reasonable in the interests of the parties, has been held unenforceable because it involved some injury to the public." Although this dictum may be regarded as being too wide in its scope it is indicative of the attitude of our courts.

The tortious aspect: The principles of the law of tort applicable to combines are in a state of flux. However, from the mass of authorities certain conclusions may be drawn: firstly, the combination will be liable if, in pursuing its object, it has committed an unlawful act. Thus the combination will render itself liable to action if it has committed a trespass, or a nuisance, or if it has libelled a competitor, or if it has unlawfully threatened the competitor or his customers or would-be customers. In other words, the law will not tolerate "racketeering." Secondly, if the combine has not resorted to such methods, if it has sought to achieve its purpose by "cut-throat" competition, or by inducing the distributors to refuse supplies to the competitor, or by any means of a similar nature, then the combine will escape liability provided it can be shown that the intention or motive, with which the acts were done, was to benefit the combination or its members. The courts refuse to draw the line between legitimate and predatory competition.

The criminal aspect: The most important rules relating to the criminal aspect of the problem are now embodied in section 498 of the Criminal Code¹ and in the Combines Investigation Act.² The provisions of the Criminal Code, first enacted in 1889,³ were influenced in a large measure by the anti-trust movement in the United States. However, shortly after this Act was passed it became apparent that provision for the punishment of participants in a combine would be useless unless some inquisi-

¹ *Revised Statutes of Canada*, 1927, chap. 36.

² *Ibid.*, chap. 26.

³ *Statutes of Canada*, 52 Victoria, chap. 41.

torial machinery were created to collect information and to secure evidence upon which a criminal prosecution could be based.⁴ To supply this need several acts were passed creating investigating tribunals of one sort or another⁵—the present legislation being the Combines Investigation Act⁶ as amended by the Tariff Board Act.⁷

Section 2, the interpretation section of the Combines Investigation Act, sets out in great detail the exact circumstances in which a combine may arise. Although this attempt at exact definition was probably intended to eliminate the possibility of a combine evading liability by reliance on a technicality, counsel have sought to prevent or to hinder an investigation by a narrow interpretation of the definitions contained in this section.⁸ It is submitted, from this point of view, that a more general definition of the offence is desirable.

On the other hand, there is the objection that the definition as it stands at present is too vague. The sole test provided by the legislature for determining the desirability of a combine is the detriment or non-detriment to the public. Just as in other fields of law where the legislature has found it desirable to delegate the powers of the judiciary to administrative officials, so also in the Combines Investigation Act, such officials have been given the greatest latitude. *Stare decisis* and rules of evidence and procedure which bind courts of law have been abandoned in the case of administrative tribunals. The result has been a method of approach and a lack of uniformity in the application of the law which have proved disconcerting to the common law lawyer. Perhaps it is unfair to the administrator to criticise his work in this way. It cannot be denied that he has a difficult task to perform, a task which has been entrusted to him only when the ordinary law enforcing agencies of the state have failed to cope with the situation. However, an appreciation of his difficulties should not blind us to the dangers inherent in entrusting the supervision of our economic development and security to an administrative official.

The whole problem is further complicated by the fact that the persons who administer the Act may lack the two-fold training in law and economics which is essential for the efficient working of the machinery which has been created. In the initial stages of the proceedings before

⁴ In spite of the creation of an investigating tribunal prosecutions may still be commenced under sec. 498 of the Criminal Code without any previous investigation by the Registrar under the Combines Investigation Act.

⁵ *Statutes of Canada*, 9-10 Edward VII, c. 9; 9-10 George V, c. 37; 13-14 George V, c. 9.

⁶ *Ibid.*, 13-14 George V, c. 9 (R.S.C. 1927, c. 26).

⁷ *Ibid.*, 21-22, George V, c. 55, sec. 4.

⁸ An example is to be found in the recent Motion Picture Industry Investigation.

the registrar, then, we have no guarantee of that impartiality which is a result of legal training; in the later stages, before the commissioner, we may well fear for the economic validity of the decision. Moreover, the commissioner with all his traditions for impartiality tends at times to become a prosecuting attorney. The administrative investigation does not determine the liability of the parties. It merely provides the foundation upon which subsequent proceedings may be based. However, the subsequent proceedings before the judge and jury are even more unsatisfactory in that they are not only subject to all the objections which may be raised against the investigation, but also because the very evidence which has the greatest bearing upon these problems, the opinions of economic experts, are excluded.

Several other defects are present in the existing system. The inquisitorial procedure and the freedom of administrators from adequate judicial review of their actions and decisions provides a fertile soil for the growth of bureaucracy. This possibility coupled with the likelihood of disagreement between the decisions of the administrator and the court, especially after the expenditure of large sums of money in pursuing an examination, tend to destroy public confidence where such confidence is most vital. One of the gravest faults of the whole legislation is that owing to the uncertainty and obscurities of the law a person may be accused and convicted of having committed a criminal offence when he was doing no more than what he considered desirable to forward his own interests in the manner generally approved in the industrial society in which he operates. The line between what is legal and what is illegal is very fine, and his guilt or innocence may depend to a large extent on the social and economic views of the registrar, or the commissioner, or the judge and jury. It is highly desirable in the interests of justice that the offender be not punished unless he has been warned that his conduct is unsocial and until he is given an adequate opportunity of reorganizing his enterprise.

L. M. SINGER.—That existing Canadian legislation devised and designed to suppress trade conspiracies and combines has proved ineffective everybody knows, but it is not so well known that that legislation is oppressive and inappropriate.

Under one of the two Acts concerned, at a time when nobody stands charged with anything, anybody can be summoned as a witness before an inquisitor, and, in public, submitted to "third degree" processes which the public would reprehend if applied by the police in a case of murder. The witness thus pilloried is not entitled to counsel to protect him, nor is he at liberty to cross-examine any other witness who may testify to his detriment, nor may he produce evidence to contradict or to explain. There is a counsel for the prosecution, not so called but acting as such. The distorted evidence produced under such a system of examination is published daily in the press to be read by the jurymen who may afterwards try the witness as an accused criminal. The effects of that sort of thing are never overcome.

After this, possibly, there is a criminal trial. The quondam witness is charged under both statutes with a series of offences all made up of the same acts. If he has sinned once he has sinned twice for every once. He is tried for offences against two statutes neither whereof defines with precision what constitutes an offence against them. The judge or jury is necessarily devoid of the species of training or the facilities for securing trade information which would enable just pronouncement as to whether or not an agreement of business men, made at a particular time with relation to the state of trade and their business affairs was, in the circumstances, "unduly" or "unreasonably" made. Every court and every jury may reach a different decision upon the same facts. Until they speak it is not known whether the accused is a malefactor or a benefactor.

Conviction under such circumstances is a matter of chance and leaves no stigma. Acquittal never overtakes the wrong done. The guilty and the not guilty have alike been "third degreed", placed in the dock and suffered in pocket and reputation. The public, from what it "read in the paper a long time ago" is apt to regard any acquittals as miscarriages of justice.

Such is Canada's trade conspiracy and combine legislation and decidedly it is nothing to be proud of.

The remedy? In the first place, conspiracies without punishment and combines without control are unthinkable. The Dominion is probably not equipped to cope with either of them. The provinces administer the criminal law, also property and civil rights. Failing provincial action less effective remedy might be afforded by repealing the existing legislation and compelling all combines, defining them, to register as trade unions under the Trade Unions Act, which could be suitably amended to enable government supervision and control, including power to cancel trade union charters. The Act already provides for members of trade unions immunity from criminal prosecution for conspiracy or otherwise in respect of such of the purposes of their trade union as are merely in restraint of trade. Criminal punishment should only ensue from intentional offence against a specific order to desist from an undesirable practice specifically condemned by government.

PLANNED ECONOMY

J. S. WOODSWORTH, *Chairman*

EUGENE FORSEY.—To say in twenty minutes anything worth saying about planned economy is like attempting to summarize in the same time the philosophy of Kant. Fortunately I am not called upon to do anything so ambitious. My task is rather, in cricket phraseology, to “roll the pitch” for Professor Hurd and the rest of you. Changing the metaphor, I am to supply the spark which will set off the high explosives: a function which—again metaphorically—I have sometimes fulfilled elsewhere only too successfully.

I fancy it is hardly necessary to spend much time discussing whether we need planning of some kind or in some degree. Pure economic individualism proved itself intolerable a century ago. Individualism mitigated by factory acts, social services, minimum wage laws, and trade union action, has obviously not been a success. *Si monumentum requiris, circumspice*. It has conspicuously failed to provide for the vast majority of the people even security of livelihood, let alone a civilized standard of living. Moreover, public policy, especially in socially advanced countries like England and Germany, has practically abolished that fluidity of economic factors which, in the classical theory, could be relied on to correct every maladjustment; and has gone far towards destroying the profit incentive, the mainspring of capitalism, without putting anything in its place. In fact, in the effort to attach to our economic mechanism safety devices which would prevent it from killing or maiming most of the population, we have come near to stopping the machine altogether. In other terms, our concessions to working class discontent are killing capitalism by inches without appreciably bettering working class conditions of life.

We cannot go on in this fashion, making the worst of both worlds. Still less can we go back to laissez-faire. The only practical policy, it seems to me, is some attempt at conscious intelligent direction and social control of our economy. This raises at once two fundamental questions: Firstly, what does planned economy involve? Secondly, is it possible within the capitalist framework?

To begin with, does it involve international action? On the one hand everyone now recognizes that our problems are world problems, and that no one nation acting alone can extricate itself from its difficulties. On the other hand it seems to some of us equally clear that if we content ourselves with waiting for international agreement, whether to lower tariffs, raise the price level, bring about disarmament, or most of all, to plan and control the economic life of the world as a unit, we shall wait forever. Are we then quite powerless? The answer, I think, is that while international planning is probably necessary to a complete

solution of our problems, national planning could provide at least a partial solution; and that national planning could provide at least a preliminary to any international plan.

Take, for example, monetary policy. Obviously no plan at all is possible without a stable level of general prices. It is no use trying to make calculations for years ahead in terms of a unit of measurement which varies from month to month. Just as clearly, any attempt to keep a stable internal price level while other countries are allowing theirs to go on rocketing up or down involves unstable foreign exchanges with consequent unsettling of international trade and disturbance of the internal economic equilibrium. The ideal solution is, of course, international action to keep the price level steady throughout the world. But a country which for lack of proper banking machinery is more or less incapable of exerting any influence whatever on its own price level will *a fortiori* be unable to play its part in an international scheme.

If, then, national planning is essential before we can plan internationally, control of the price level is the first essential of a national plan. There is no need to labour this point or expatiate on the advantages of monetary stability. These have become a commonplace even among cabinet ministers. Nor are means to this control lacking. Central banking machinery and technique have been brought, especially in England, to a very high degree of efficiency. Hitherto indeed they have been used chiefly to keep on the gold standard, or, once off it, to get back on to it again. But there is no reason why they should not be applied, as they were in the Federal Reserve System under Mr. Strong, to the task of keeping prices steady. In Canada central banking presents special difficulties outlined by Professor Curtis in a paper before this Association two years ago; but most of them we could avoid, I think, by keeping off gold. That we have in Canada people capable of running a central bank properly I have not the faintest doubt.

Secondly the planned economy involves control of foreign trade, if only because we could not allow the whole machine to be thrown out of gear by temporary or sporadic dumping—using that word, of course, in its proper sense as defined by Professor Viner and others, not in the novel, and happily unique, meaning given to it by the Canadian Customs Act. This control emphatically need not mean “protection” in any form. On the contrary the more thoroughly we integrate our economy the more clearly we shall realize how silly it is to make expensively at home what we can buy cheaply elsewhere. The aim of the planning authority would be to sell our exports for as high a price as possible and to use the foreign credits thus obtained to supply the import needs of the community at as low a price as possible; in other words, unified selling of exports by export boards, bulk purchase of imports by import boards. The export boards would sell their foreign bills to the planning authority or some subdivision of it, which would resell them to the import boards. Export and import boards taken together would have a monopoly of foreign trade.

Next the planning authority must be able to control investment. One of the worst features of our present economic anarchy is the waste of capital and natural resources which takes place through over-development of certain industries. Conspicuous examples are the soft coal industry in the United States, the Canadian railways, and the coal industry in Alberta. To put an end to this sort of thing involves, negatively, the power to veto the establishment of new enterprises or the extension of old ones; positively, the direction of investment into socially necessary channels. Adapting and amplifying Mr. Bennett's famous scheme of 1927, banks, insurance companies, and other financial institutions would at least be required to hold certain proportions of their funds in specified investments.

A fourth feature of the planned economy would be control of the labour supply, the suggestions already outlined would clearly involve either bringing new people into the country at one time or keeping them out at another, shifting workers from place to place and industry to industry, and seeing that they get enough wages and enough leisure at least to keep them fit for their jobs. In fact the planning authority would have to control immigration, industrial transference, and hours and wages.

Inseparably bound up with these four "controls" is the power to force reorganization of any industry which does not reach a prescribed level of efficiency. A planned economy cannot tolerate incompetence.

Without at least these powers, I do not see how any kind of planning authority, socialist or capitalist, could function at all.

That brings me to my second question: "Is planning possible within the capitalist framework?" To this so strong a socialist as myself is perhaps hardly able to give an answer which can be accepted without heavy discount. That remark in itself indicates plainly enough the answer I shall make. But after all as some of us never tire of telling our students, it is not so much what opinions one holds as why one holds them, that matters. That I think planning incompatible with capitalism is probably neither particularly interesting nor particularly important. The reasons why I think so may, however, provide a basis for discussion by people better qualified to give an impartial judgment.

First I should urge that any attempt at capitalist planning is bound at once to run up against stiff opposition from vested interests. A stable price level, for example, is good for the community as a whole, but not by any means for everyone in the community. Where central banking exists it will be subject to heavy pressure from interested groups to deflect it from its proper work. In Canada, of course, it does not exist, except in embryonic form, and most of the commercial bankers, if one may judge from the evidence they gave before the banking committee of the House of Commons in 1923 and 1928, will resist it to the last gasp. Any real effort to control imports for the public good would meet similar opposition; and control by industry itself would, as I shall try to

show in a moment, be nothing more than a new and very obnoxious form of exploitation. One might perhaps suppose that in the case of exports, enlightened self-interest would induce competing firms to unify their sales organization; but the experience of the British coal, cotton, and iron and steel industries, the Canadian pulp and paper industry, and the Stevenson rubber restriction scheme is in this respect as in some others depressing. The life of the few central selling agencies which have been formed voluntarily has been as a rule "poor, nasty, solitary, brutish and short." Voluntary reorganization of industry from within is at best a slow and painful process, and capitalist governments are even slower to force the pace. To suggest that capitalist business or its political instruments will ever undertake to control investment seems to me the pinnacle of futility. Indeed the only part of the whole planning notion to which capitalism is likely to take at all kindly is a "suitable" form of control of the labour supply. That, no doubt, it would accept with enthusiasm. But even this country, which seems easily to bear away the palm for docility, would hardly, one hopes, be prepared to hand over its entire working class to the arbitrary discretion of a group of employers.

Second, as the last remark suggests, the powers indispensable to any planning authority are far too great to be entrusted either to private persons or to a capitalist-controlled government. Even the innocent-looking import boards, as Professor Robbins points out in a recent article in the *Political Quarterly*, can be used as a concealed and hence peculiarly dangerous form of protection—a statement fully borne out by the proposals of Mr. E. F. Wise of the Independent Labour Party in the very article to which Professor Robbins was replying. The prospect of import boards made up of, or under the control of persons interested in domestic industries which might suffer from foreign competition, is one which "no man can face with equanimity." In Adam Smith's words, their acts would be those of "a class whose interest it often is to deceive and oppress the public and who have accordingly on many occasions both deceived and oppressed it."

What is true of import boards is if anything truer of the control of labour supply and investment and the power to force industrial reorganization. An irresponsible authority which could bring into the country whom it chose, send people where it chose, pay them what it chose, work them as long as it chose in whatever industries it chose, organized as it chose, would be a tyrant without parallel in history. Compared with it, even the Immigration Department, armed with the powers given it by the Act of 1919, pales into insignificance. Powers of this kind are simply intolerable except in the hands of disinterested persons responsible to the community, and limited by a hundred percent, rock-ribbed trade union organization with a recognized right to strike, in every industry in the country.

To sum up, only a Socialist government can produce a national plan at once effective and "safe for democracy."

At this point it becomes impossible to evade any longer the third fundamental question about planned economy, namely: "What are we planning for?" Hitherto I have deliberately kept this in the background, have even perhaps allowed it to be inferred that the object of the whole thing is not a fundamental social change but merely the ironing out of fluctuations; the steadying, regulating, stabilizing of our present social order; more security for all classes, but security in their present relative positions. Even this limited objective, I have suggested, is unattainable save under a government Socialist at least in the sense of being genuinely democratic and bent on the public good. Actually it would have to be Socialist in a much deeper sense. Political democracy without economic democracy and something like equality of income is in a very precarious condition, to say the least of it. To say, for instance, that Sir Herbert Holt and I are politically equal because we each have one vote at parliamentary elections is just nonsense. As long as Sir Herbert is rich and I am poor, his political weight will far outbalance mine, quite irrespective of our knowledge, experience, or native ability. Democratic control of industry without a drastic redistribution of wealth is simply impossible, and any government which tries it will soon succumb to external pressure, internal moral decay, or a combination of both.

Moreover, unless we are prepared to "turn the world upside down," prepared to work a social revolution—not necessarily by violent means—we cannot build up a political movement strong enough to apply any kind of plan. The task is immense. The driving force must come from the mass of the people, from the uncomfortable classes. To think that we can rouse them to the necessary pitch by offering them security in their discomfort is to my mind perfectly fantastic. Just try to run an election on a slogan of that sort and see what happens.

But granted we must have a drastic redistribution of wealth, need that mean socialization of industry? Can't we do it by taxation and social services? No. We can go some distance on that road, a much greater distance than this country has yet tried to go. But we shall run our heads against a stone wall. English experience seems to me in this respect conclusive. "Plunder socialism," which leaves the sources of wealth in private hands, and then tries to redress the balance by taxing the rich, has fairly definite limits, and England is probably close to them. No doubt the economies of last September could have been avoided by cutting down armaments; but even so the margin for expanding social services is slim compared with the vast gulf which still divides "the two nations" of rich and poor. The only adequate and permanent policy is to get the sources of wealth into public ownership and under public control, and to use not a fraction but the whole of the proceeds for public purposes.

Ultimately then, I think, the possibility of a planned economy rests on our acceptance of a communist social philosophy. Note that I say a communist philosophy, not the Communist philosophy; communist

with a small c, not Communist with a capital c, if I may verge on a pun. I am not for a moment suggesting that we must swallow Marxism or Leninism line, hook and sinker. On the contrary I for one should find such a process highly unpleasant for a variety of reasons. I am not prepared to accept *in toto* either Marxian economic theory, hopelessly stuffy and reactionary as it is in many respects, nor Marxian metaphysics, nor the Marxian view of religion, nor the Marxian method of social change. In other words, I hope I am still safe from prosecution under section 98 of the criminal code and from what I believe one of your Toronto papers calls "official kidnapping" by the Immigration Department. What I mean by a communist social philosophy is perhaps best expressed not in the words of Marx or Lenin but in those of a seventeenth century English "Leveller," Colonel Rainboro, quoted by the Master of Balliol in his little book *"Essentials of Democracy."* "Really," says Colonel Rainboro, "I think the poorest he that is in England hath a life to live as the richest he." It would be hard to find a better statement of the fundamental principle of Socialism; and other foundation for a planned economy, I believe, can no man lay.

W. B. HURD.—An historical analysis made by Prof. Commons provides a particularly useful background for our present discussion. He distinguishes three phases in social evolution. The first is the Era of Scarcity characterized by "the minimum of individual liberty and the maximum of communistic, feudalistic or governmental control." This epoch was followed by the Era of Abundance with "the maximum of individual liberty and the minimum of control." The third epoch, into which we are now entering, he calls the Period of Stabilization. It is characterized by "a diminution of individual liberty enforced in part by governmental sanctions but mainly by economic sanctions—through collective action of manufacturers, merchants, laborers and bankers."

Corresponding phases are discernible in the evolution of our political institutions. Primitive communism and absolutism with their minute regulation of the economic and other activities of the individual, yielded place to government by the capitalist for the capitalist, as the great industrial changes of the eighteenth and nineteenth centuries ushered in laissez-faire and the Age of Abundance. The technological achievements of the present era, sometimes referred to as "the second industrial revolution," are already modifying our political philosophy, our legislation and our instruments of government. In a word, history teaches us not only that change occurs in our economic and political institutions but that these changes usually go hand in hand.

Now there are two distinct points of view as to the best procedure in the face of the rapidly increasing pace of the present economic transition. The one is catastrophic or revolutionary; the other, evolutionary.

The evolutionary hypothesis naturally determines the type of definition for which purpose, the following paraphrase of a passage from the pen of Prof. J. M. Keynes will serve as well as any. The outlook for a planned economy, as here understood, is the prospect for progress

"in the transition from economic anarchy to a regime which deliberately aims at controlling and directing economic forces in the interests of social stability and social justice." The ideal of social stability and social justice is in no way incompatible with increasing abundance. The definition does not imply or contemplate any slackening of technological improvements. It suggests, rather, conscious social adjustment to them.

In spite of the demonstrated possibility of social change many competent students contend that under a capitalistic economy, the selfish profit motive will always dominate the few who are in control and that no significant economic or political advance is possible until all profits are abolished. This view, however, seems open to question on practical and theoretical, as well as on historical grounds. In the first place, it overlooks the fact that reasonable control would be indefinitely preferable to cut-throat competition to the captains of many of our largest and most important industries. It also underestimates the increased worry, the increased taxation and the disappearing profits associated with periods of depression. In such periods, the unemployed admittedly suffer most, but few would deny that both capital and management bear a considerable share of the burden. Moreover, it fails to attach adequate significance to the rapidly increasing number of socially-minded business leaders who both understand and display a willingness to give leadership in solving the problems of the present economic transition. Such considerations together with others that might be mentioned if time permitted, warn the unbiased observer against unduly discounting the possibility of socializing or at least controlling the profit urge.

As a matter of fact, society would be taking a serious risk in abolishing profit for—with all its abuses—it serves a very useful social purpose. It acts as a spur to individual initiative for which there would be considerable difficulty in finding a satisfactory substitute of general application. Stabilization without invention spells stagnation. Moreover, when functioning in a price economy, profit is an important factor both in ensuring the consumer the desired type of products and in determining the direction, if not always the extent, of industrial development. When associated with motives of a more social sort or controlled by external authority, profits and the profit incentive may well prove to be among the most useful of social institutions even in an era of economic stability. This, at any rate, is beyond dispute. The total abolition of profits could not but mean universal price fixing by governments and detailed governmental direction of our complex industrial system which is admittedly quite beyond the capacity of present or prospective political institutions, unless, of course, society is to be satisfied with a much simpler and a much lower standard of living.

A somewhat similar view is that little or no progress can be made under existing forms of democratic government. The general distrust of parliamentary machinery seems to be based for the most part on its known susceptibility to corruption and to control by financial or other

sectional interests, its partisan rather than national character, the practice of choosing members on the basis of party affiliation rather than training and ability, and the comparative absence of independent discussion and independent voting on the part of the individual members because of a worn-out convention that defeat on even a minor issue involves the resignation of the government. Here again current events as well as past history amply demonstrate the possibility of rapid yet peaceful change in the instruments, the procedure and the attitudes of government. Time does not permit of elaboration at this point. Suffice it to say that with the establishment of universal suffrage, governments are becoming increasingly sensitive to public opinion and in recent years have made a very creditable showing in legislating for greater social justice and even in national economic planning of which more will be said presently.

It is difficult, therefore, to avoid the conclusion that our business system dominated as it still is by the profit motive, and our democratic governmental machinery with all its weaknesses are usable in effecting the transition to a new and better era. Moreover, it is reasonable to expect that they will be capable of increasing usefulness in the future. If the above assumptions are well founded it would seem to follow that any workable plan for a rapid and peaceful transition must include both of these social institutions. This contention is supported by four other practical considerations: (1) the problems involved are of such magnitude that their solution requires the best brains in parliament and business to say nothing of those of the economist and the political scientist; (2) business planning may be completely nullified by governmental trade policy or the presence or absence of social legislation; (3) it is reasonable to suppose that business associations may find it necessary to invoke the authority of parliament to supplement voluntary regulation; and (4) if business (including labor) has no part in making the plans, governments will undoubtedly find effective opposition in every attempt at control.

What then is the outlook for progress toward a planned economy? What agencies are at work and what have they achieved?

In the first place business planning on an industrial scale has been practised with some measure of success since before the war, notably in Germany and France, and in spite of anti-trust legislation five hundred industrial associations are at present operating in the United States. These associations have been concerned chiefly with eliminating uneconomic competition by price and quota agreements, with bargaining with organized labor and in the United States especially, with maintaining an efficient lobby at Washington. In a word, they have been promoting their own selfish interests. Nevertheless, they represent a crude type of planning and are capable of assuming an important place in a national planning program.

In the political sphere, government by commission, either of a permanent or temporary sort, has been applied with increasing frequency both to particular branches of our economic system and to the solution

of specific economic problems. Distinct though slow improvement is noticeable in the non-partisan character of personnel, and in recent years the powers of many of the permanent commissions have been gradually widened until today they exert effective control in their respective spheres. On the whole, however, commissions have done comparatively little by way of planning except in the case of certain emergency boards established during the war. So far as the present discussion is concerned, their chief significance lies in reflecting the growth of a favorable public attitude toward control, in demonstrating its feasibility in a limited sphere and in providing an interesting example of evolution in instruments of government.

Then there is the National Economic Council. During the past fifteen years national economic councils have been established in at least nineteen important countries: Great Britain, France, Germany, Czechoslovakia, Portugal, Spain, Italy, Roumania, Poland, Yugo-Slavia, Norway, Denmark, Hungary, Greece, Soviet Russia, Colombia, Mexico, China and Japan; and in the United States the La Follette bill authorizing the creation of a National Advisory Council is now before the Senate. Hitherto, economic councils have been created by governmental authority but in most cases a majority of the members are either nominated or appointed by labor and business interests. Their size, their powers and their sphere of planning vary from country to country. Invariably they are government financed. Only in the United States have plans been advanced for a national economic council created and financed by industry.

According to Louis L. Lorwin of the Brookings Institution, these councils in their widest scope are attempting to deal with four types of problems:

- (1) The relation between voluntary economic organizations and the democratic state.
- (2) The harnessing of expert knowledge in the service of governments.
- (3) The devising of methods of collective action which can reconcile economic differences and group conflicts with national aims.
- (4) The utilizing of expert knowledge and creative thinking in a planful way.

In some cases these councils are purely consultative in character—mere adjuncts to some ministerial office; in other cases they are independent bodies in the political and legal system, established by law and exercising at least limited powers of regulation.

Of course the advisory economic council as such has many practical limitations and is open to numerous theoretical objections. It has been described as emasculated and impotent where adequate regulative or recommendary powers have been withheld. One should not forget, however, that planning is but in its infancy and that the scope and powers of new organs of government are gradually widened as their usefulness is demonstrated and as they grow in public esteem. In this

connection, the National Economic Council of France is an interesting example. Whatever be their future, national economic councils reflect the changing popular attitude toward rational planning, and whatever their present limitations, their influence is said to have been considerable in helping most countries in western Europe "to steer a middle course between dictatorship and violent revolution."

A fourth effective agency is parliament itself. Its activities have embraced not only the creation of National Economic Councils, Commissions, Tariff Boards and the like, but the operating of utilities in the public interest and the securing of an increasing measure of economic justice by means of taxation and social legislation.

And finally, powerful agencies have been and are at work in creating a public opinion in favor of a planned economy. The educational influence of the National Economic Council when once established has been great. The influence of increasing numbers of outstanding socially-minded business and political leaders and experts in the field of economics and political science, is growing daily. In a recent issue of the *New York Times*, John Corbin states that "scarcely a week passes without bringing news of new champions of a national plan, including many of the foremost representatives of American business and American thought." Mention is made of Gerard Swope and Owen D. Young of the General Electric Company, Edward A. Filene and the distinguished industrial leaders of the United States Chamber of Commerce, Senator La Follette and his supporters in the Senate, President Nicholas Murray Butler and a large group of eminent economists and social scientists. Such a revolution of thought in a country which has so long prided itself on its robust individualism is astounding. Unfortunately, the majority of leaders of Canadian life have been rather slow in appreciating the need for any national co-ordination or regulation of our economic activities and there is still a tendency on the part of some to cling to the illusion that the glaring defects of unregulated laissez-faire can be cured by the deportation of a few of its more objectionable critics. Nevertheless, real progress is being made. The exigencies of the recent technological changes and the current trade depression are exerting a profound influence on public opinion as a whole.

So much and a great deal more may be said regarding progress in the immediate past; but what of the future? If a cross-section view of the present national and international situation be taken, the answer might well be one of despair, but in the light of the demonstrated flexibility of our national and business institutions, undue pessimism seems unwarranted.

What form the ultimate adjustment will take is impossible to predict. In the international field progress may be made through periodic economic conferences with a permanent consultative council such as that established in 1927, the prestige of which is enhancing as its predictions come true; or it may be effected through an association of national economic councils or both. Separate boards may be set up to deal with such problems as international monetary and credit control,

or independent action of business leaders may result in voluntary world planning and control of specific industries, as in the case of the Chadbourne plan in the sugar industry.

Prediction is likewise impossible in the national sphere. Methods will doubtless vary as between countries. Obviously the first need is for further study and by way of relating the present discussion to our own national economy and at the same time drawing attention to some of the political problems in setting up any feasible planning organization, a brief outline of a possible national planning program for Canada, is submitted for your critical consideration. It is not suggested that such a program is capable of complete realization for many years to come; and I may add that no one recognizes its incompleteness and inadequacy more clearly than does the present writer.

The plan assumes the creation of a new Tariff Board in accordance with avowed government policy, and the continued pressure on parliament, both from within and without, for such legislation as may promote greater social justice. It proposes:

(a) The establishment by the government of a National Economic Council.

(1) Organization: The Council (a) to consist of forty or more members including representatives of all important economic interests in the country, (b) to select, or nominate for government appointment an executive staff of economists and business experts, (c) the staff to include in addition to a number of full-time members, the Dominion Statistician and one or more of his chiefs chosen according to special knowledge of the specific problem in hand, and one representative each from the Tariff Board, the National Development Bureau, the Economic Research Branch of the Department of Agriculture and from such other government departments as may be deemed advisable.

(2) Function: The duties of the Executive might include some or all of the following:

- (a) To undertake such investigations as may be recommended by the government, or by the Council in full session or as may seem necessary or desirable to the executive staff itself.
- (b) To undertake with the co-operation of the Bureau of Statistics such special studies for industrial associations as are principally or in part based on official data, the industrial associations concerned to pay the costs of same.
- (c) To promote and co-ordinate economic and social research within the Dominion.
- (d) To suggest to the government of the day such social or economic legislation as it considers in the public interest.
- (e) To assist in the organization of industrial associations in the major industries of the country and to recommend to

the government coercive measures where such are necessary to secure this end.

- (f) To require uniform procedure in the preparation of financial statements, within each industrial association, to demand the presentation of summary statements for the associations from time to time and to approve proposed expansion of existing capital equipment where such proposed additions to industrial equipment exceed a certain minimum figure.
- (g) To refer to the Combines Investigation Office cases of apparently unfair price agreements on the part of industrial associations.
- (h) To co-operate with organized industry in planning present and future production policies and to co-ordinate into a national program the plans of the industrial associations.
- (i) And, finally, to publish such reports and findings as may be considered in the public interest.

The success of the Council and particularly of the executive staff would almost entirely be determined by the ability and the non-partisan character of the members. The major part of the work of the Council would of necessity be centred in the Dominion Bureau of Statistics. The Council should, therefore, be organically related to this bureau where the official economic and social statistics of the nation are assembled, summarized and interpreted insofar as financial appropriations permit. It should not be a branch of the National Research Council as was recently recommended by the Trades and Labor Congress because that organization was established for research in the natural rather than the social sciences.

- (b) The second portion of the proposed plan is the formation of Trade or Industrial Associations for the purpose of voluntary self-government. The National Economic Council would promote the organization of such associations, recommend coercive measures to the government where refusal or inability to organize and function is contrary to the public interest, mediate in case of internal dissension and advise and help the associations in setting up adequate machinery for the collection, interpretation and circulation of such statistical information as is needful for the intelligent planning and control of the industry as a whole.
- (c) The third proposal is the promotion of labor organization along lines parallel to those of the Industrial Associations for the purpose both of representing the views of labor on matters of industrial planning and control, and facilitating peaceful collective bargaining.

THE RISE OF NATIONAL PARTIES IN CANADA

ESCOTT M. REID

To understand Canadian politics during the first quarter century or so of the Dominion's history one must constantly bear in mind certain differences between the conduct of general elections then and now. The two most important points of difference are that in the first three general elections, those of 1867, 1872 and 1874, voting was open throughout all the provinces and the polling in the various constituencies did not take place at the same time. A Toronto constituency might elect its member one day and the neighbouring York constituency six weeks later. The grosser abuses of the system of non-simultaneous elections were remedied in 1874 but not till 1878 was the ballot used and simultaneous voting established in all but a few of the constituencies of the five eastern provinces. In 1882 Manitoba voted simultaneously with the east and by 1908 deferred elections had been discontinued in the great majority of the remaining western constituencies. It is also worth noting that open voting was resurrected for use in the first two federal general elections held in the North-West Territories, those of 1887 and 1891.

Deferred elections and open voting are important in a study of the rise of national political parties in that they make it possible for government to exercise a great measure of control over the results of elections—and the greater this control of government over elections, the weaker are political parties. Under the old system of open voting civil servants, contractors, anyone who wanted to obtain favours from the government could not vote against the candidates it supported without losing their jobs or their expectations of favours should the government be returned to power. On the other hand if they voted for the government and the opposition were successful their fate would be equally unhappy. As a natural consequence they disliked partisan electoral contests. This dislike was shared by many of their neighbours who, though they did not expect to be the direct recipients of government favours, had the interests of the whole con-

stituency at heart and did not want its chances of obtaining a new post office, wharf or railway spoilt by its unintentional support of the weaker party at an election. Even after vote by ballot was adopted these people continued to disapprove of partisan electoral contests which committed the constituency to the support of one side or another before they knew which side would constitute the government. The ideal election of these political realists was an uncontested one in which the member was not definitely committed to any party and could therefore make good terms for his constituency in return for giving his support to the strongest party in the House.¹ Such members constituted an important fraction of all the early parliaments; Macdonald called them "loose fish," George Brown, "the shaky fellows" and Cartwright, "waiters on Providence." These appellations are hardly dispassionate enough for us so we shall call them for want of a better term, "ministerialists," because their politics were not to support a party but a ministry and any ministry would do. These ministerialists were inverted Irishmen. They were always "agin" the opposition. Their counterpart in ecclesiastical politics was the Vicar of Bray.

It was because of the strength of this political realism that non-simultaneous elections threw such power into the hands of the ministry. The government could bring on the elections first in those constituencies in which they were safe, and having carried them, tackle those where they had some chance against the opposition, and leave the dangerous seats till the last. At the close of the election of 1872, the *Toronto Globe* wrote that:

The sole object of this nefarious trickery was to enable the Ministerialists to raise a grand howl over their pretended success and cheat

¹ An example of such an election was that in the constituency of Cornwall (eastern Ontario) in 1872. Candidates of both parties were nominated but the Conservative who was a son of John Sandfield Macdonald withdrew and allowed the nominal Liberal, Bergin, to be elected by acclamation. In withdrawing Macdonald said that "he believed that when Dr. Bergin got into Parliament he would throw over all ties and follow the crowd if the Government had a majority in the House. He thought that he would show good judgment in doing so, because he would get more favours by going with the majority than he could from the minority." The *Globe*, (Toronto) Aug. 24, 1872.

the people into the belief that the Opposition were being awfully beaten.²

The *Globe* knew that if the people believed the opposition were being awfully beaten many of them would rally to the government camp and the opposition would be badly beaten. The illusion of victory would create victory. For if the voting in a ministerially minded constituency, in our sense of the word, were deferred until it seemed pretty clear which party would form the government, that constituency need no longer return an avowed "loose fish"; it could return a proper party candidate. Nevertheless that would not mean that it cared at all for parties—that parties had any real existence in that constituency.

We begin to see the difficulties ahead of us in this attempt to trace the growth of political parties for if a party may have a nominal but no real existence in one constituency it may have a nominal but no real existence in a whole province. How are we to get behind appearances to reality? What tests of the real existence of a party can we devise? How do we know when a party has been formed?

The sign of the formation of a political party is the co-operation in the legislature and in the country of a number of members of parliament. This co-operation is not merely for a temporary purpose. It must continue over a reasonable period of time. It must also be co-operation for a certain political end, not for any political end. Members of parliament who form a parliamentary League of Nations Society do not thereby create a political party, for co-operation in a political party has as its purpose the attainment or retention of office. The proof that this co-operation is real and not feigned is that the members of the group act as a unit in opposing or supporting successive administrations. The members of the group are willing to enter or support only that administration which has the support of their associates. Thus the sign of the existence of a political party is the existence in the legislature over a reasonable period of time of a group of members who co-operate for the purpose of acquiring or retaining office. The members alone do not constitute the party. They are the sign of its existence. The

² *Ibid.*, Aug. 8, 1872.

party is composed also of workers, active supporters and passive voters. The party affiliations of members are discovered by means of their votes on questions involving confidence in a government; that of unsuccessful candidates by their pledges before polling day of their allegiance to one party leader; and that of the voters by their support of pledged candidates.

This criterion of party membership takes no account of a possible community of outlook on public questions, or of the possession of a common programme of legislative or administrative action. Such a community of outlook may constitute the inward and spiritual grace of a political party but it is the common interest in power which is the outward and visible sign of its existence.

These tests of a common interest in power break down when an attempt is made to apply them to elections which take place after the results in most of the constituencies are known. The political complexion of the future government being common knowledge men who would otherwise have betrayed by their non-committal election speeches that they were ministerialists can now come out as avowed supporters of the successful party. Consequently for deferred elections we must have recourse to a further test: if none or almost none of the candidates in an area where elections are deferred declare themselves as supporters of the minority party we conclude that the so-called party candidates supporting the government are in reality ministerialists and that in consequence the party to which they have pledged their allegiance has a nominal but no real existence in that area.

Unfortunately our tests are still not precise enough, for certain members of the legislature may declare at an election that they are supporters of a certain party and they may in the House give that party their unswerving support but if we discover that they were really supporters, not of the party as a whole nor of the head of the party as the mouthpiece of the whole party, but of a sectional party leader and were giving their undivided loyalty to him, then we must say that the real party was the group owing allegiance to that sectional leader, and that the nominal party was an alliance or confederation of parties.

This brings us to metaphysics. We are no longer concerned with the mere external manifestations of party solidarity manifested in divisions and speeches but with that which constitutes the essence of the party—the political attitudes of its members. As the party has often been spoken of as a state within a state, it is not unnatural that we find that the essential characteristic of the party is of the same nature as the essential characteristic of the state, namely its possession of sovereignty. State sovereignty is the product of the willingness of the citizen to obey the commands of the state. If, in the mind of the citizen there is never any conflict between his loyalty to the state and his loyalty to his church, trade union, province, League of Nations, his own conscience or his own self-interest, the sovereignty of the state is absolute for him; but if his will is ever torn between conflicting loyalties he is a member of a state whose sovereignty is limited, for its commands, even if obeyed, are not obeyed without question. If on the other hand when the commands of nation and province conflict there is never in the mind of the citizen any struggle of competing loyalties, because he follows without question the command of the province, then the nation possesses no sovereignty; it is simply an alliance of sovereign provinces; as a state it has a nominal but no real existence.

The essence of the state is its possession of sovereignty. The proof of its real existence is its possession of sovereignty. So the essence of the party and the proof of its real existence is its possession of sovereignty. The party possesses sovereignty when it is the object of the loyalty of its members, that is if its members are willing to obey its commands. If in the mind of the party member there is a conflict between his loyalty to his party and to his sectional group within the party, the sovereignty of the party is limited. The party possesses the limited sovereignty of the federal state. But if a conflict of commands between sectional party leader and national party leader causes no struggle of loyalties in the mind of the party member, because he follows without question the command of his sectional leader then the so-called larger party possesses no sovereignty and no real existence; it is simply an alliance of sovereign sectional parties.

Our practical tests of the existence of a party are capable of being subsumed under the subjective test. The members of parliament who vote together on questions involving confidence in a government or the candidates who declare their allegiance to a party leader are members of a party because they are willing to obey its commands. The party exists because it has a claim upon their loyalty. The ministerialists, on the contrary, are not members of the party they claim to support because there is never in their minds any conflict between the claims of that party and the claims of their constituency—they are always loyal to their constituency.

Now to discover by the application of these tests when there arose in Canada national political parties.

National political parties certainly did not exist under the Macdonald government from 1867 to 1873. Confederation saw group government established at Ottawa. The dominant groups or parties in the coalition government were the several branches of Ontario Conservatism under Galt, Macdonald and others, and the French Conservative groups under Cartier. This dual alliance was supported by the Ontario Liberals under McDougall, Howland and Blair, the English minority in Quebec under Galt, and a large group of ministerialists mostly from Eastern Ontario, Quebec and New Brunswick. The Ontario coalition Liberals and the Cartier followers were not members of a coalition party because they owed their allegiance entirely to their own sectional leaders. They appear to have been willing to support an alternative administration which would have excluded Macdonald and his supporters, and Macdonald in 1871 had to use all his cunning to prevent a successful alliance arising out of the "coquetting," as he called it, which was going on between his French followers and the two wings of Ontario Liberalism.³ By 1872 the coalition Liberals had returned to the Reform party or had been swallowed up by one of the Conservative groups, and consequently the government followers in Ontario were slightly more homogeneous, though the number of parties

³ Sir John Macdonald to Hon. Alex. Morris, Apr. 21, 1871, in Sir Joseph Pope, *Correspondence of Sir John Macdonald* (Garden City, N.Y., and Toronto: Doubleday, Page & Co., 1921), p. 145.

which made up Ontario Conservatism was still great if we can judge from the events of 1873. Certainly in that year it appeared as if the Conservative sectional leaders in Ontario could transfer their personal following to the support of another administration at their own mere pleasure. If Galt, for example, had entered Mackenzie's cabinet, as at one time seemed likely, he would have brought over the Conservative members from the Cobourg district and this, according to his adviser (the Conservative editor in Cobourg) would have given him "the strongest personal following of any member of the Cabinet."⁴

The members from New Brunswick in the first two parliaments were either ministerialists or independents. The election of 1867 in that province was fought not between an anti-government party and a pro-government party but between so-called anti-unionists under Smith and Anglin and so-called unionists under Mitchell and Tilley. These terms apparently meant nothing and when the respective groups got to Ottawa the former did not consistently vote with the opposition nor the latter with the government. As a group they gave a "fair trial to the administration" (that over-worked phrase of early dominion politics) but occasionally they would show their complete independence as, for example, when they voted unanimously in favour of an amendment to the first dominion tariff debated in parliament.⁵ In the election of 1872 only one successful candidate appears to have committed himself to the support of the government or opposition. The others professed varying degrees of independence of party ties.

The Nova Scotians in 1867 constituted a separate political party and its very *raison d'être*, opposition to confederation, signified that it owed no loyalty to any party or leader outside Nova Scotia. According to Howe even the beaten

⁴ H. J. Ruttan to Sir Alex. Galt, Nov. 17, 1873, in O. D. Skelton, *Life and Times of Sir A. T. Galt* (Toronto: Oxford University Press, 1920), pp. 465-6.

⁵ Amendment of McDonald (Lunenburg) of Dec. 14, 1867 "for the purpose of placing wheat and rye flour, cornmeal and corn in the free list", *Journals of the House of Commons* (Canada), 1867-8, p. 92.

Tupper party had not taken sides in the party politics of Ontario. "No man in his county," said Howe in the first session of parliament, "went to the hustings pledged to any side of any question in the politics of Canada."⁶ When Howe entered the cabinet his followers became still another group within the coalition for they continued to owe their allegiance to their sectional leader not to Macdonald. In 1872 in Nova Scotia as in New Brunswick the issues were mainly personal and the candidates were unpledged to any party. Their general attitude was that they had no affection for the government but that the Reformers were even less likeable for they were a selfish Ontario party.⁷

It follows from this analysis of the government supporters in the first two parliaments that there was then no national Liberal party. The Brownite Liberals of Ontario possessed the unity of adversity—all who were not truly loyal had deserted to join the winning side—but they, like the Conservatives, did not even extend over the whole province for Ontario east of Kingston was a hotbed of ministerialism. Members from that district might call themselves Liberal or Conservative but they almost unanimously supported the government. There was also a Liberal or Rouge party in Quebec but the Ontario and Quebec Liberal parties were not united. There was between them little more than an *entente cordiale*, at most a dual alliance. Not until 1872 were they able to draw close enough together to choose a common leader in parliament. This dual alliance of Ontario and Quebec Liberals did not even have an *entente* with the New Brunswick independents or the Nova Scotian party. The leaders of the Liberals, Mackenzie and Dorion, tried to co-operate with the maritimers but they could carry only about half their sup-

⁶ *House of Commons Debates* (Canada), Nov. 8, 1867.

⁷ For example Killam, the member for Yarmouth from 1867 to 1882, said in his campaign according to an editorial in the *St. John Daily Telegraph* of Aug. 17, 1872: "I have not had much confidence in the Government in many respects; but am sorry to say that I have no confidence in the Opposition. They . . . have attempted to treat the interests of these Maritime Provinces as mere make-weights in the scale, to further the selfish aims of great parties in Ontario."

porters with them on a division.⁸ The Liberals did not even possess enough cohesion to pursue a tactically sound policy.

The election of 1872 increased the number of votes the Liberal alliance could muster on a division but it did this rather by increasing the number of groups and perplexed ministerialists who attached themselves to its standard than by adding to the strength of the real party. The reason for ministerialists supporting an opposition party was that as the returns came in during the long six weeks of polling they were so close that both parties claimed the victory and the ministerialists were not certain on which side of the fence to jump. The wiser of them concluded that even if Macdonald had won his was but a temporary triumph and his tenure of office would be brief. Consequently it was good policy to support the opposition so that they would be remembered when the opposition came into its own. In Quebec there were interesting developments which showed how thin was the veneer of party unity which had covered the fissures between the various groups under Cartier, now weakened by the intrigues of church politics, by the Riel rising and the New Brunswick school law. He lost support on the right to the Ultramontanes or Programmist, and on the left to the Parti National, and both dissident groups attached themselves to the Rouges. Thus the Quebec oppositionists constituted no longer a fairly united party but a heterogeneous collection of groups. The parallel with 1896 is interesting.

After the downfall of Macdonald over the Pacific scandal one coalition government succeeded another. The dominant groups in the new coalition were the Ontario Liberals and the Quebec Rouges. They were supported by a few Ontario Conservatives who had left their party because of the scandal, by the Parti National and the Programmist, and by the usual assortment of ministerialists from eastern Ontario and Quebec and by almost unanimous ministerial groups from the

⁸ Examples of such divisions are those on the amendment of Macdonald (Lunenburg) of Dec. 14, 1867, mentioned above, and on the Holton amendment of April 29, 1868, moving the House into Committee of the Whole "to consider the alleged grievances of [Nova Scotia]." *Journals of the House of Commons (Canada)*, 1867-8, pp. 92, 249.

maritimes and the west. The personnel of the cabinet gives convincing evidence of the coalition's heterogeneity. The Ontario members were Mackenzie, Blake, Cartwright, D. A. Macdonald, Scott, and Christie. Of these Cartwright and Scott had been avowed Conservatives as late as two years before and D. A. Macdonald was an eastern Ontario "wobbler." The original Quebec representation of three were all Rouges but not one of the five maritime members could have been called a Mackenzie supporter in the previous election. A. J. Smith of New Brunswick had declared at his nomination meeting that he had said to Sir John Macdonald and Sir George Cartier that even if he had the power he would not turn them out for the sake of office, for he thought no other could do any better than they.⁹ Burpee, the other cabinet minister from that province, had denounced the Liberal opposition because they were engrossed by the sectional interests of Ontario.¹⁰ Ross of Nova Scotia had not even supported the remonstrance to the Governor-General on August 12th, 1873, when a dozen of the usual government supporters had bolted, and though Coffin of Nova Scotia had joined in the remonstrance he had previously supported Macdonald in the two party divisions on the charges of corruption. Laird of Prince Edward Island had not taken part in the campaign of 1872 since the Island was not then a member of Confederation. Thus even counting D. A. Macdonald as a Liberal, the Liberals constituted only half the Mackenzie cabinet.

It is only by 1878 that the Ontario-Quebec parties have conquered most of eastern Canada. That is the election, it will be remembered, in which the ballot was introduced and elections were held simultaneously in all but four of the eastern constituencies. Of the 141 eastern members of parliament who sought reelection all but one did so as supporters of that leader whom they had supported in the first session of the parliament of 1874, and the great majority of the other candidates committed themselves in their election speeches to following one of the two party leaders. The result was that the *Toronto Globe* and the *Montreal Gazette* dis-

⁹ *St. John Daily Telegraph*, Aug. 6, 1872.

¹⁰ *Ibid.*, Aug. 5, 1872.

puted over the party affiliations of only five members-elect instead of the thirty-five of 1872, and it was thus possible to discover the approximate strength of the parties in the House as soon as the ballots were counted, whereas previously that knowledge could only be gained after the first party division had taken place. There flowed from this the establishment of a constitutional precedent for Mackenzie resigned before meeting the new parliament. This break with tradition did not go uncondemned. The *Dominion Annual Register* for that year summed up the criticism which was directed against his action:

To count up the results of an election according to the success of certain candidates who were represented to hold certain views on public affairs and to accept that result as the will of the people constitutionally expressed was . . . a dangerous approach to the plebiscite.¹¹

The critics were right. General elections were becoming dangerously like plebiscites but the reason was not Mackenzie's break with constitutional precedent but the establishment of the two party system in eastern Canada. Every advance towards national political parties was to mean a further step towards making general elections plebiscites.

We must not think of the two parties as being as firmly established in eastern Canada in 1878 as they were by 1896. The Conservative party in Quebec in 1878 was still made up of a union of groups and it is possible that the only loyalty which a member of one of these groups owed was to his own sectional leader. Certainly in 1887 the ultramontane members did not seem to experience any violent conflict of loyalties when they broke with Macdonald and sought to destroy him in revenge for the murdered Riel, and were so nearly successful that Macdonald was only saved by the extra seats his gerrymander had given him in Ontario. It would appear, however, that from 1891 on the federal Conservative party did possess a measure of sovereignty in Quebec for Chapleau was not certain enough of the loyalty of his followers to risk an open break with Macdonald. Instead he kept one foot in each camp.

¹¹ H. J. Morgan, *Dominion Annual Register 1878* (Montreal: Dawson Brothers, 1879), p. 211.

In the seventies partisanship had been making no progress in the western provinces. The politics of Manitoba and British Columbia in the three general elections of that decade can be explained as the result of two forces: their desire for the Pacific Railway, and the holding of their elections some weeks after the results in the east had been declared. Until the railway was completed the west could not afford the luxury of party politics. It had to be ministerialist. And as it always knew which party had been sustained by the east, it could be ministerialist without difficulty. All parliamentary candidates in the west in the seventies were unanimous in their opposition to the opposition. Opposition candidates did not appear in Manitoba until 1882 nor in British Columbia until 1891. Western ministerialism was, however, of a different nature from that *politique de pourboire* of the eastern ministerialists. The westerners did not sell their support in return for the petty favours of the patronage machine and the pork barrel but only in return for the railway, the whole railway, and nothing but the railway. This attitude of political realism dictated by the economic needs of the frontier, did not triumph in Manitoba without a struggle against the partisan political attitudes of the Ontario settlers. The struggle was short and not severe. The economic necessities of the present triumphed over the political institutions of the past.¹² The British Columbians had no such struggle for few of them had any interest in the party politics of the east until the completion of the railway in 1855 brought eastern immigrants and with them eastern political ideas. This difference in the composition of the population of the two provinces meant that Manitoba declared its allegiance to the eastern parties as soon as it was safe for it to do so, that is in 1882 or 1887, while British Columbia delayed till 1891 or 1896. The North-West Territories did not swear loyalty to the parties till 1896 in spite of a false appearance of partisanship in 1887—the result of perplexed ministerialism. The *Globe* told them that the Liberals had won and the *Gazette* that the Conservatives had again triumphed.

¹² This struggle is reflected in the editorials of *The Manitoba Free Press*, Jan. 10, 17, and February 7, 1874.

With the conquest of the west completed in 1896 the Conservative and the Liberal parties had at last become national and thus a national two party system was established in Canada for the first time. In becoming national the two parties did not lose all their old characteristics. 1878 and 1896 do not mark breaks in the evolution of political parties in Canada for the development of such extra-legal political institutions is a gradual process. Consequently it is not surprising to find to-day sectionalism in parties, heterogeneity in cabinets, and ministerialism in constituencies — veiled and modified as they are by the party system. Bargaining between sectional groups still takes place but nowadays more often in caucus and cabinet than on the floor of the House of Commons. In caucus the party is sectional. In public it is homogeneous. In reality it is federal.

What is the force which has made out of the loose coalitions of Macdonald and Mackenzie the federated unions of sectional groups which have constituted the national parties from 1896 to the present day? The loose coalitions had as their core dual alliances of Quebec and Ontario groups. Whichever of these alliances proved to be the more powerful ruled with the assistance of the maritime and western groups which remained neutral until the struggle in the central provinces had been resolved and then made as good terms as possible with the victors. There came a time when the neutral groups had to choose before the struggle of the rival dual alliances which one they would support. As some chose one and some another the dual alliances would have become quintuple had not other forces been working to make them federations of five or more groups. For when allied and associated powers are fighting a war for supreme power—and political combinations are always fighting a war for supreme power—the alliance tends to become itself the direct object of the devotion and loyalty of the citizens of the separate powers or in other words there is a tendency for the alliance to acquire sovereignty and so become a super or federal state. The other force making for closer union is the result of the actions of the leaders of the groups who find from bitter experience that an alliance is most effective in attack or defence when it is united under a supreme command. These two

forces meet, the force of individual devotion pushing up from the bottom and the force of political strategy pushing down from above, and what was once a loose dual alliance is compressed into a federal union. The cement which made this union durable is furnished from non-political sources. Better means of communication bind the sections together; intermigration breaks down sectional differences; new territories are settled as a common enterprise; a national feeling struggles into existence. Out of the alliances of sectional parties is created the federations of sectional groups—the national Conservative and the national Liberal parties.

THE PARTY SYSTEM IN CANADA

F. H. UNDERHILL

Party is a body of men united for securing by their joint endeavours the possession of national office by means of some particular campaign fund in which they are all agreed to share. Mr. Reid has sketched the process by which, in the generation after Confederation, two nation-wide parties were built up by a process of agglomeration, expanding from the nucleus of the parties of Upper and Lower Canada, until by the 1890's the whole Dominion was included in the scope of the two-party system and every little Canadian boy and girl was being born either a little Liberal or else a little Conservative. I propose to draw further attention to some of the features of this national two-party organization and to discuss some aspects of those more recent post-war developments which offer a challenge to the established system.

In 1867 we took over, or rather continued, the British names for our two parties along with the rest of the paraphernalia of the British constitution. The essence of our party history since then has consisted in the fact that in the process of growth the two parties become more and more American in their composition, machinery of organization, methods, and personnel. Canada, like the United States, was a gigantic loosely-knit nation extending across half a continent, with a tradition of national unity still to be built up, and with a wide variety of sectional interests engaged in a perpetual struggle with one another which, in the nature of things, could only be partially and temporarily reconciled. Each party contained representatives of the main sectional and racial groups into which geography and history had divided the country. Inevitably the main task of the party politician was to keep peace among these rival interests within his own party; his statesmanship was measured by the number and variety of different interests which he could keep marching together under the party banner. And Canadian statesmanship reached its highest pinnacle of achievement when in the same cabinet under one Prime Minister there sat side by side the head of the Orange Order and the spokes-

man of French Catholic Ultramontanism. Had Mr. King in 1921 been able to inveigle Mr. Crerar and the Progressives into his fold, thus presiding over a cabinet containing the embattled prairie farmers along with Ontario and Quebec manufacturers, he too would have attained to the *ne plus ultra* and gone down to history as a statesman of the calibre of Sir John Macdonald.

This composite character of parties has meant that party leaders could seldom speak with a clear voice upon any issue. Canadian parties, in proportion as they became national in scope, drifted further and further from their English namesakes, and their English names became more and more meaningless. They ceased to represent a conflict between two clear-cut philosophies of life or between two social classes. The real deep-lying differences of opinion in our public affairs have tended to be within each party rather than between the two parties. Each party, has had to satisfy the fierce determination of English-speaking Protestants that the North-West should not become a second preserve of the French Catholic hierarchy, and at the same time, has had to be careful not to alienate Quebec. Hence all the confusion over issues like the Riel execution and the Manitoba school question. Each party has had to give satisfactory guarantees of tariff protection to the industrial interests of the eastern cities who provide most of its campaign funds and at the same time has had to soft-pedal protection or devise some cry to counterbalance it when appealing to its agricultural following. Each party has had to give voice to the growing nationalism of the country and simultaneously pay its respects to the sentiment of imperial unity. The necessary result of all this complex process of balancing, of concessions and compensations, has been to enthrone insincerity in our national politics. Nor is the real nature of the system altered one whit by impressive references to our British capacity for compromise in practical affairs.

It should be noted in passing that the essential function of Laurier in Canadian political history was to complete the process by which both parties became national in this particular North American sense. Under him the Liberal party as well as the Conservative party became a party which made

its appeal to all sections of the Dominion and therefore ceased to stand for anything in particular. Before Laurier the party had been cursed with principles and had been unable to attain to office except accidentally. The Liberals in Quebec had been strongly anti-clerical; in Ontario they were Grits, whose primary appeal was to the pioneer farmer of the western Ontario peninsula. Both the Rouge and the Grit sections of the party had a deep-rooted suspicion of the big business interests whose capital was in Montreal. Alexander Mackenzie, the first Liberal Prime Minister of the Dominion, had his home in the pioneer section of western Ontario and he was never happy with financiers and railroad promoters. Goldwin Smith remarked of him that if his strong point as Prime Minister consisted in his having been a stone mason his weak point consisted in being one still; but this was only the snobbish Oxford Englishman's way of expressing the fact that Mackenzie was a true representative of the pioneer agrarian democracy and that the Liberal party under him was an expression of these simple democratic instincts. It was not until Laurier took charge that the Liberal party acquired sophistication and felt really at ease with railway promoters, land companies and industrialists. Laurier put an end to the anti-clerical Rouge tradition. Fielding put an end to the stiff-necked Cobdenism of Cartwright. And in Sifton, who was apparently the main driving force of his administration, Laurier had a disciple of Alexander Hamilton who believed with all his heart in the gospel of creating prosperity by tying to the government all the private profit-seeking interests who could most effectively exploit the material resources of the country. The Laurier-Fielding-Sifton party had thus emancipated itself from its narrow English liberalism; it was now North American; it was truly national in its appeal. It had become all things to all men, and could compete on equal terms with the so-called Conservative party which Macdonald had created.

Such an analysis as this of the nature of party politics on the North American continent is, of course, the merest commonplace of the American text-books of political science. And it is, by this time, sufficiently familiar in Canada also, so that there is no need to elaborate upon it in a meeting like

the present. The latest presentation of the case may be found in the excellent chapter on "Parties and Policies" in Mr. Brady's recent book on Canada. Mr. Brady maintains that it is better for the country that this process of bargaining between sectional interests, which is the essence of our politics, should be performed behind the scenes in the secrecy of the party caucus rather than in public on the floor of the House. The country at large apparently couldn't stand the shock of seeing our party-system as it really is. His opinion seems to be shared by most other commentators. Why? Is it so self-evident in a democratic community that the truth about the nature of the political process should be veiled from all but a small esoteric group consisting of the hard-boiled practical politicians and of the professors of political science? Our nation-wide political parties are supposed by their very existence to have made some mysterious contribution to national unity. Is it not time that we asked what the real value of that contribution has been, if in general the function of party has been to cover over the hard bargaining between different interest-groups by rhetorical clap-trap about the sacred principles of Liberalism or Conservatism?

One or two features of our Canadian party-system need to be specially emphasized. To the working of our federal constitution our parties have supplied the most essentially federal elements. Each national party is a loose federation of provincial machines depending for its success upon the efficiency with which the provincial machines are working at the moment. Each party reaches office at Ottawa after its provincial machines have captured a majority of the provinces; and a main part of the business of the federal government, once it is in office, is to do what it can to help its provincial machines in their local organization—witness the interesting manoeuvres of the past year or so in which Mr. Bennett has been endeavouring to assist the Anderson government in Regina and to discredit the Bracken government in Winnipeg. Moreover, the coping-stone of the constitutional structure, the party cabinet in Ottawa, is, as was predicted by Christopher Dunkin in 1865 and as has been pointed out so often by commentators ever since, essentially federal in its structure. The Prime Minister necessarily chooses re-

representatives from each province whose main function is not to administer their departments but to see that the party fences in their province are kept in order.

At one point this loose federation of provincial party machines, having in common only the desire to obtain office, becomes so loose that it is almost true to speak of the national party as merely an alliance of sectional groups rather than a federation. The party system has never really bridged the deep gap between French and English in this country. Quebec's representatives have always sat in party caucuses more as ambassadors from an independent power than as associates in a partnership. They have usually been able to get what they wanted, partly because of the solidarity of the group they represent and partly because of the completely realistic manner in which their group has been accustomed to shift its alliance from one party to the other according to cold calculations of its own interests. Quebec politicians have never been either Liberal or Conservative; they have always been simply and whole-heartedly French. In this respect, no doubt, they have differed from the politicians of other groups and sections chiefly in the clearness with which they have envisaged their own interest and the frankness with which they have pursued it.

In the face then of this inherent and persistent sectionalism of Canadian politics, should we not ask ourselves to what extent the supposed unifying force of the two-party system really operates, or whether such unity as we have gradually achieved in Canada may not be chiefly due to quite other economic and social forces?

But the most important result which follows from this composite nature of our national parties has yet to be mentioned. A party which depends for success (i.e., for office) upon the different and often contradictory appeals which it must make to different sectional interests will inevitably in course of time become mainly dependent upon and responsive to those interest-groups which are themselves best organised and most strategically located for applying effective pressure upon the party leaders. In Canada there are two such groups who have always held a dominating position in our politics because of their superior internal organisation—the French

Catholic Church in Quebec and the interlocking financial-industrial-commercial interests which we usually refer to nowadays as big business. The Quebec church owes its power to the effectiveness with which it can control and direct the mass voting of its parishioners. Big business depends primarily upon campaign contributions, also upon constant official and unofficial lobbying, and upon all the complex economic and social relationships between business and political leaders.

No political party can safely neglect other groups in the community altogether; but the other groups do not take the same intense and untiring interest in politics which is manifested by these two groups, and they are not organised so as to make their pressure felt so directly. Certain other interests, like that of the mere consumers, are not organised at all. Others, like that of the prairie farmers, cannot, however well organised, operate so quietly behind the scenes as can big business. The impression which prevails among the more naïve of eastern newspaper readers, that the prairie farmer is always either squealing for help or holding a pistol at the government's head, is due to the fact that the farmer has no other way of making his influence felt except that of organising with his fellow-farmers in public and carrying on public agitation. And just because his activity must be public it is the less effective, because when the farmer gets something, other groups, according to the well understood rules of the system, have to get something also in compensation. Whereas a business corporation can make a quiet campaign contribution to the party organiser which in some mysterious fashion induces the party leader to favour the policy that the corporation wants, even though the leader himself is innocently unaware that the contribution has been or is about to be made. The net effect of all this—and it is so well known to every intelligent Canadian that there is no need to labour the point or to attempt a comprehensive survey of all the methods by which big business influences government — is that for all practical purposes our two parties are normally and regularly the servants of big business. Other interests can influence party policy but they can do so only spasmodically. And the real function of the two-party system since the Laurier era has been to provide a screen behind which the controlling

business interests pull the strings to manipulate the Punch and Judy who engage in mock combat before the public. Both parties, in other words, are Hamiltonian, though the so-called Liberal party pays lip service to what in the United States would be called Jeffersonian principles. Both parties take for granted that their first duty in office is to assist the triumphant progress of big business in the exploitation of the country's resources.

The fundamental defect of the two-party system, then, as it has worked out in practice, is that it does not provide an effective means by which economic interests other than those of organised business can exercise a reasonable influence in the determination of national policy. The representatives of these other interests are overwhelmed in each party caucus by the weight of members whose political life depends upon business support. The balance of influence might be otherwise if the party financed itself by public subscriptions from the mass of its membership. The situation would be different if one of the parties, the Liberal, were really based on the principles it professes and offered a real alternative to the control by financiers and industrialists which is exercised with careless lack of concealment over the Conservative party.

Sooner or later there was bound to be a revolt by some of the groups who felt that their interests were unduly sacrificed in this two-party system. The revolt came in Canada with the farmer and labour movements which swept over the prairie and Ontario after the war. Today, eleven years after these upheavals, it is easy to see that the new movements have not fulfilled the hopes of their adherents. Labour, because of internal quarrels in the trade union world, because the bulk of eastern workers had been too thoroughly indoctrinated with the political philosophy of their employers, and because of the great difficulties of mere distance between Canadian urban centres, has not as yet succeeded in launching a really national political movement. The farmers spent the decade after 1921 in learning by a painful process of trial and error what form of organisation was best suited to their needs; and most of them who had started the experiment with enthusiasm dropped it in disillusionment sometime in the next ten years. Only the United Farmers of Alberta organi-

zation has remained firm through all vicissitudes; and it is open to argument perhaps whether its success has been due, as it maintains, to its strict occupational basis of membership or to the fact that, in its control of a provincial government, it could provide the patronage and the jobs which are necessary to satisfy the appetites of the less idealistic members of any political movement.

At any rate the U.F.A. survived and the Progressives who conceived of themselves as left-wing Liberals or as forerunners of some vague new democratic mass movement all disappeared.

In an age like ours and on a continent like ours, when the plutocratic elements of the community are becoming more and more closely organized, a mere unorganized mass democracy holding up the now somewhat tattered banners of early 19th century liberalism will be increasingly ineffective. The only answer to organisation is counter-organisation. This is the one main reason why all who do not welcome a business man's civilization should rejoice in the emergence of these new class organizations like the U.F.A. and the Independent Labor party, whatever may be the theoretical text-book objections to class warfare in politics.

The co-operating independent groups from western Canada also have to their credit some very tangible achievements on behalf of their section. Here one cannot do better than quote from the *Manitoba Free Press* whose testimony is the more valuable because it has steadily done its best to persuade the independents to work within the Liberal fold and has always been very critical of their determination to stay independent.

There is great rejoicing down East at the extinction of the "agrarian" influence at Ottawa. The unexpectedly successful campaign of the Conservatives in Quebec was based chiefly upon denunciation of the Government's supposed subserviency to the wishes and demands of the farmers of western Canada; and great joy is now being expressed that "sectional" policies designed to make farming possible in the West are now to be replaced by "national" policies in keeping with the wishes of St. James Street.

* * * *

The Progressive movement—we call it a movement because it never became an organized party, but remained a formless expression of opinion—was one of the most beneficial political developments of the

post-War period and has conferred benefits upon the West—and through the West upon Canada—not easily calculable.

Assuming that the movement has definitely come to an end—though we think the spirit which inspired it still blows over the western plains—it has a monument which we trust will be enduring in the statutory confirmation and extension of the Crows Nest Pass rates. The *Free Press* was in the fight for the re-establishment of the Crows Nest Pass rates from beginning to end. It is its opinion, based upon an extensive knowledge of the facts, that if the membership of the House of Commons had been divided between the two parties with a split representation from the West, the Crows Nest Pass rates would never have been restored. The “National policy” on this question, favoured along St. James Street, would have been imposed upon both parties had there not been a parliamentary contingent from the West free from control in caucus by an eastern majority. It was the steady pressure of this contingent representing the entire West that converted the Government to the recognition of the justice of the western case.¹

Note especially the phrase, “a parliamentary contingent from the West free from control in caucus by an Eastern majority.” This is the crux of the matter. What is the use, after this handsome admission by the *Free Press*, of its constant bitterness towards the still surviving representatives of the Progressive uprising of 1921 because they will not co-operate thoroughly enough with the Liberal party. “Co-operation” such as Mr. King and the *Free Press* preach is only a honeyed word for absorption into the Liberal caucus such as has happened under *Free Press* guidance and inspiration to the Manitoba Progressives. And once in the caucus the erstwhile rebel becomes subject to all the influences of party solidarity; in a couple of sessions he is as tame as a back bencher from Quebec or Ontario.

To-day everyone is discussing the possibilities of a new left-wing movement in Canadian politics. Unless such a movement has a solid core of stubborn class groups like the present U.F.A. and Labour groups it will disintegrate when the emotional atmosphere changes just as the 1921 movement disintegrated. The union of all the forward-looking elements in the community of which Mr. King becomes the apostle once every four years will never get anywhere until it is in

¹ *Manitoba Free Press*, (Winnipeg) August 6, 1930. The editorial goes on to mention other gains due to the Progressive movement.

charge of some forward-looking leaders who are looking forward to something more than immediate office.

Nor need we worry greatly over the horrible spectre of the group system as practised in France and continental Europe. There is no proof which is convincing to any but the smuggest of British patriots that countries with a variety of groups are worse governed than those with two parties. Nor is there any immediate likelihood of our party-system dissolving into a chaos of groups. It is the part of practical statesmen to meet difficulties as we come to them; and the danger of a group-system in Canada, if it is a danger, is still far in the future.

The problem which is urgent is the excessive rigidity of our actual two-party system, which is due to the growth in power of the party machine. This is a difficulty which faces all English-speaking democracies as well as Canada. The centralization of authority in the hands of the managers who run the party machine is a universal phenomenon; and there is no apparent way of preventing it. But it means inevitably that the party comes to express only that range of ideas which are approved by the machine; independence within the party becomes less and less possible.

Mr. Ramsay Muir² has pointed out that in England in the first half of the 19th century there was a two-party system but it was a loose free and easy system. Each party contained independent individuals and groups who were apt to bolt from the party leadership on occasion. Governments in those circumstances were really made and unmade by debate in the House of Commons. But as the century went on the increase in the size of the electorate led to a more and more elaborate party machine. The flexible loose party organisation was replaced by a rigid control which forbade the private member, on pain of being dropped at the next election, ever to vote against his party. Elections became gigantic plebiscites between rival leaders, and all those elements who were not satisfied with the program of either of the two rival parties had no representation at all. Mr. Muir points out

² Ramsay Muir, *How Britain is Governed*, (London: Constable, 1930).

also that in the first half of the 19th century, when party organisation was still loose, cabinet government worked just as satisfactorily as in the 20th century and government was just as stable. Those pundits who are alarmed at the possible breakdown of the British cabinet system if we weaken the two-party system in its present form are confusing cabinet government with cabinet autocracy. Cabinet autocracy is a product of the late nineteenth century and is, of course, intimately connected with the use of the all-powerful party machine.

These same arguments are applicable to Canada. What is needed in Canada, as in England, is a loosening of the control of this rigid party machinery which dominates the House of Commons and the constituencies. The only effective method which is in sight in Canada for loosening this control is the continuance and growth of the independent groups who are the only truly democratic elements in our House of Commons since they are financed by their own voting supporters, and who are the only elements in the House that can give effective voice to those sections of the nation whose bargaining power has been largely nullified in the caucuses of the two old parties.

But behind all these particular questions of political organisation there looms up to-day a much more fundamental problem. Two and a half years of world depression have made us all conscious that our civilization must face the task of political control of its economic activities or perish. Everywhere in all countries the phrase "A Planned Economy" is on men's lips. Our absurd North American party system has worked well enough hitherto because it had no very important tasks to perform. We all took for granted that the real work of developing the country was being done elsewhere than in parliament; it was being done by private profit-seeking business concerns, and the function of politics was merely to distribute in a haphazard happy-go-lucky way the privileges and special opportunities sought by business. This care-free planless era has gone forever. If democracy cannot organise its economic life, the necessary task of organisation will be taken over by other forms of government. Russia and Italy provide us with alternative methods, and neither

of them admits of the parliamentary institutions to which we are accustomed. The challenge of our times is whether parliamentarism as a method of organising the political and economic life of a people can survive. In the face of that challenge the simple trust of our orthodox leaders in the kind of two-party system we have in Canada becomes more and more pathetic.

THE ST. LAWRENCE WATERWAY PROJECT

W. T. JACKMAN

Since 1921, when the report of the International Joint Commission upon this project was issued, recommending that Canada and the United States should embark co-operatively upon the development of the navigation and power facilities along the Great Lakes-St. Lawrence route, this has become one of the major issues before these two countries. But, strangely enough, notwithstanding the attention which has been focussed upon it, there is conclusive evidence that the majority of the people apart from those associated with the transportation interests know very little about it. They have been content to have their opinions formed for them by the daily press of the country; and in not a few cases the latter refuse to publish anything which does not coincide with the editorial bias. The most clamorous of these papers are busy day by day in the dissemination of ill-informed statements and distortions of fact, and, consequently, the virus of infection of erroneous ideas, emanating from unenlightened and prejudiced minds, accomplishes its destructive work before the truth can get even a hearing.

It is necessary, therefore, for us to analyze this problem in the light of reason and of reality, in order that we may be able to reach conclusions which are based upon a sound foundation. If a project of this kind is to stand the test, it must rest clearly and definitely upon an economic basis; and in order to arrive at a careful appraisal of it we desire to subject it to a judicious economic inquiry.

To begin with, we must have a clear view as to the cost of the proposed improvement. Much has been given to the public which is entirely misleading. For example, the chairman of the United States St. Lawrence Commission, Mr. Hoover, who was then Secretary of Commerce, reported in 1926 that:

The total investment in the St. Lawrence by the joint Governments on the above basis of procedure would be from \$123,000,000 to \$198,000,000, depending upon details of the plan.¹

¹ *Report of the Chairman of the United States St. Lawrence Commission regarding the St. Lawrence Waterway Project*, 69th Congress, 2nd Session, Senate Document No. 183, p. 5.

The plan provided for the development of only part of the power available in the international section of the St. Lawrence, and as a preparation for the more complete installation later. It may be noted here that the amount of power available in the international section of the river is 2,200,000 horse power for the two-stage development favoured by the Canadian section of the Joint Board of Engineers and 2,326,000 horse power for the single-stage development favoured by the United States engineers.² The additional power in the purely Canadian section of the river would bring the total electrical energy available up to slightly over 5,000,000 horse power.

To show the cost as given by the Joint Board of Engineers, we take the following figures from their report.³

To provide a channel 27 feet deep from the head of the Lakes to Montreal, including installation of 1,365,000 horsepower of electrical energy on the St. Lawrence and the cost of the Welland Ship Canal, would involve these expenditures:

On Great Lakes,	
Connecting channels	\$ 54,900,000
St. Mary's River locks	6,500,000
Compensating works	3,700,000
Welland Ship Canal	115,600,000
St. Lawrence River to Montreal	355,900,000
Total	\$536,600,000

But the Joint Board of Engineers did not give the entire cost of all the factors which must be taken into account in determining how much the people must pay for this project. For, in addition to the cost of construction as given here, we must add the interest, at say 5 per cent., during the period of construction, which is estimated as ten years. Adding the interest on \$536,600,000 at 5 per cent. for one-half of 10 years, we get \$536,600,000 + \$134,150,000, or a total of \$670,750,000. Of this amount Canada's one-half would be \$335,000,000.

² *Report of Joint Board of Engineers on St. Lawrence Waterway Project* (Ottawa: King's Printer, 1927), p. 29.

³ *Ibid.*, p. 43.

But this deep waterway would require the deepening of the important harbours along the lake route if the deep-draught vessels were to be able to operate in the Lakes. To the previous cost we should, therefore, have to add the cost of deepening, and in some cases enlarging, the harbours of Kingston, Toronto, Hamilton, Port Colborne, Windsor, Sarnia, Sault Ste. Marie, Port Arthur and Fort William. In the case of some of these harbours on the north shore, this work would have to be done in part through solid rock. There is no basis upon which we could reach a satisfactory estimate as to the expenditure for this purpose, but it would certainly add many millions of dollars to the cost of the water route. We know that the original estimate of \$25,000,000 for the improvement of Toronto harbour in anticipation of the opening of the Welland Ship Canal has been far exceeded by the actual expenditure. In addition to the capital cost of these works, there would also have to be included interest on that capital for the period of their development.

It must be remembered here that this cost provided for only 1,365,000 horse power of electrical energy. A large amount would have to be added to this in order to provide for the additional development in both the international and domestic sections of the river before the full possibilities would be realized. And, in the words of the Joint Board of Engineers:

The total eventual power installation visualized is therefore approximately 5,000,000 horse power; and the total eventual cost [without interest computation] of developing this power and of providing navigation with channels 25 feet in depth, is in round numbers from \$620,000,000 to \$650,000,000, depending upon the form of improvement adopted in the International Rapids Section.⁴

These figures, of course, disregard harbour improvements entirely.

Two experienced and highly talented engineers of Montreal, Messrs. Holgate and Jamieson, at the request of the Montreal Board of Trade, made a careful and intensive study of this proposed waterway improvement; and, in their report in 1929, referring to the estimates of cost of the Joint Board of Engineers, they said:

⁴ *Ibid.*, p. 41.

We desire to say in regard to these estimates, that they are not contractors' estimates, and we venture the opinion that the allowance for contingencies has not been liberal enough. The river is one of the largest in the world, and the quantities of water to be handled are unprecedented; the construction must be spread over several years, and the works during progress will be subjected to such trying conditions from water and ice, and on such a large scale as we have no precedent to guide in making estimates of the cost of such enormous sub-aqueous works as are demanded; so that although no doubt the Joint Board of Engineers gave this phase consideration, yet we are convinced that the costs of the work will be substantially in excess of the figures given in the report, and . . . we do not think anyone can say what greater sum will be required, as there is no accurate information to safely guide in making such an estimate.⁵

In addition to the cost connected with the actual construction of the works essential to the navigation and power, there will be other expenditures which will be incurred. Dykes will have to be provided at various points on both sides of the international section of the river. The International Joint Commission estimated that 4,780 acres would be flooded on the Canadian side and 6,320 acres on the New York side. The flooding on the Canadian side presents the more serious problem, as it involves the protection or entire removal of certain towns, and the inundation of several villages, a considerable area of cultivated land and a number of burial grounds which have been in existence for about a century. There would also be the cost of eliminating the existing canals on the Canadian side, the cost of purchasing the charter rights and privileges of any companies operating along the international section, and the payment of damages to any private interests which would be injured by the proposed changes in the river.⁶

In the carrying out of great public works there has always been a great disparity between the estimated and the actual costs of these enterprises. For example, note the following:

⁵ H. Holgate and T. A. Jamieson, *Report on the St. Lawrence Waterway Project to the Montreal Board of Trade* (Montreal: Southam Press, 1929), p. 38.

⁶ *Report of International Joint Commission on St. Lawrence Waterway*, 67th Cong., 2nd Sess., Sen. Doc. No. 114, pp. 168-9.

	Estimated Cost	Actual Cost
Suez Canal	\$ 30,000,000	\$ 80,000,000
Manchester Ship Canal	40,000,000	80,000,000
Panama Canal	160,000,000	375,000,000
Welland Ship Canal	50,000,000	116,000,000
Chicago Drainage Canal	16,000,000	53,000,000

These sums do not include interest on the capital in any case. The New York State Barge Canal, which was estimated to cost \$101,000,000, was constructed by the proceeds of bond issues amounting to over \$191,000,000 (between 1905 and 1925), on which over \$39,000,000 of interest was paid, thus making a total cost of well over \$230,000,000. The National Transcontinental Railway, between Winnipeg and Moncton, N.B., was estimated to cost \$61,415,000; but when the cost reached \$159,881,197 the Grand Trunk Pacific refused to operate it on the government-contract basis, and by March 31, 1926, the cost of this railway and its appurtenant Quebec Bridge was \$191,001,541.05.⁷

If the estimates of these works, which are relatively simple, fell so far below the actual costs, what shall we say regarding the St. Lawrence project, which is much more difficult because containing so many factors of an unknown character. It would involve the cessation of much of the work over many winters, the difficult and uncertain problem of ice control and the disintegrating effects of frosts, the preservation of water levels on the Great Lakes—with the superimposed impediments of having to deal with adjustments between two national governments as well as two provincial and one state government.

In view of what we have just shown, that actual costs of such works almost invariably reach twice or three times the estimated costs under the most favourable conditions, we leave it to the enlightened mind to calculate the full extent of the actual obligation which would have to be added to the burdens now borne by the 10,000,000 people of this country.

The arguments for and against the waterway may now be analyzed.

⁷ 17 *Board of Railway Commissioners' Judgments*, 131, p. 188.

(1) The first argument in favour of this waterway development is that it would be of great benefit to the interior of the continent by making the lake ports into ocean ports.

The first conclusion of the United States Commission on the St. Lawrence improvement was that:

The construction of the shipway from the Great Lakes to the sea is imperative both for the relief and for the future development of a vast area in the interior of the continent.⁸

The vision of ocean vessels flying the flags of the world, operating in trade to and from all parts of the globe, has touched the fancy of many. It has been openly proclaimed that a 27-foot waterway, permitting the operation of vessels of 25 feet draught, would admit 88 per cent. of all ships now entering United States ports.⁹

There may be a physical possibility of vessels of 25 feet draught coming through the proposed deeper waterway but there are conditions which militate against this. In the first place, it would be difficult for the long vessels of the ocean type with small rudder to navigate through the restricted and tortuous channels of the upper St. Lawrence, where sharp turns are abundant. The difficulty and danger would be much greater if vessels had to meet and pass one another in these narrow passages, and it would be still further increased if fog obscured the visibility. In this case the vessel would have to anchor; but to anchor a vessel of even moderate size would be virtually impossible in some of the long, narrow sections of the upper part of the river. The ship must swing in anchoring and in swinging it is very likely to strike the rocks on the sides of the channel.¹⁰ Moreover, there would be great difficulty in trying to manoeuvre liners into and out of locks.

But, if the canalized waterway were physically possible, it would be uneconomical. In order to have ocean liners operated through the St. Lawrence route above Montreal,

⁸ *Report of the U.S. St. Lawrence Commission*, 69th Cong., 2nd Sess., Sen. Doc. No. 183, pp. 1, 6.

⁹ *Ibid.*, p. 3.

¹⁰ The difficulties of navigation are given fully in a memorandum submitted to the Dominion government, and reprinted in the *Annual Report of the Dominion Marine Association*, 1927, (Kingston: Jackson Press, 1927), pp. 71-83.

each vessel would have to have the services of a pilot and a crew who were familiar with this inland course; and to retain the services of an ocean and also of an inland crew, and as well to bear the expense of the slower movement and the higher insurance rate accompanying the more restricted and dangerous channel, would make the cost of operation materially higher.¹¹

Again, in order to be able to operate economically, these ocean vessels would have to have traffic inbound from Montreal, as well as traffic outbound from the head of the lakes. But most of the traffic inbound from Montreal is package freight, destined to different interests in the interior. To expect ocean vessels to take this traffic and call at a series of ports along the lake route would be to cause such delays to these vessels as would increase their operating costs substantially, and, this could only be made up by charging higher rates on the traffic outbound. Package freight is way-freight business, and neither the ocean ships nor the large costly upper-lake vessels could afford to spend time calling at local stations en route back to Fort William.¹² But to go all the way from Montreal to the head of the lakes (1,216 miles) empty would preclude the operation of the costly ocean steamships over this route, unless the rates charged on the down-bound traffic were high enough to compensate for the movement both ways. There is a scarcity of high class freight to and from Canadian ports on the Great Lakes; but, even if it were more plentiful, the ocean liners would not be found in this service, since they operate between large centres.

The only ocean vessels which could or would use this waterway are tramp vessels, which carry bulk cargoes. Numbers of tramp steamers come to Montreal in ballast to get cargoes of grain. They would be still worse off if they were going over 1200 miles inland to Fort William to get their cargoes; and they could not be subject to the much longer journey, the greater barriers and the heavier operat-

¹¹ *Proceedings of Special Senate Committee on St. Lawrence Waterway*, 1928 (Canada), pp. 123, 251-2.

¹² *Ibid.*, pp. 123, 229, 237-8.

ing expenses without being able to charge much higher rates from lakehead than from Montreal. It is only the smaller tramp vessels which could operate on this route and avoid the present transfer of cargoes; but the smaller tramps are not those which can be operated most economically. In the evidence given before the Committee of the Canadian Senate which inquired into the St. Lawrence project, in 1928, the Deputy Minister of Railways and Canals testified:

I do not believe any liner will go up at all [beyond Montreal]. You might have an odd tramp that would go up.

And the chairman of the committee said:

It has been generally conceded by everybody who has appeared before this committee . . . that probably regular liners would not go west of Montreal. Tramps might; coasting vessels might. But in the main, the benefit to be derived by the St. Lawrence waterways development would be that large ships would go from Fort William through to Montreal without transshipment.¹³

It will not go unnoticed here that there are the same impediments in the way of economical operation of the 10,000- to 12,000-ton upper-lake vessel as in the case of the large ocean vessel.

Perhaps we may be permitted to quote from the report of Sir Alexander Gibb, the English authority who has recently handed to the government his conclusions regarding the development of Canadian ports. Respecting the St. Lawrence waterway project he says:

In my opinion, after giving the matter close thought, . . . large ocean-going vessels would be at a very heavy disadvantage in attempting to operate in land in competition with the specially-designed lake freighters. The additional time required by them would mean a larger fleet to maintain existing schedules, or the abandonment of present schedules and working arrangements. . . . So far, then, as ocean-going ships are concerned, the principal users of the deep waterway will be confined for the most part to (i) the small and medium-sized tramp that will bring in a cargo for a lake port and seek a return cargo, and (ii) the coastwise traffic connecting the lakes with the Lower St. Lawrence, the Atlantic seaboard and Newfoundland. These activities exist already and are likely to receive some impetus.

His view is that the specially-designed vessels of the Great Lakes will not proceed beyond Montreal and that Mont-

¹³ *Op. cit.*, p. 229.

real will be the chief port of trans-shipment at which ocean vessels will load and unload.

It is very evident that those who visualize the world's fleets of carriers engaged in profitable trade between the interior of this continent and the great expanse of the international markets are destined to serious disappointment.

(2) The second argument in favour of this waterway is that it would reduce the cost of transporting grain from the interior of these two countries to the foreign markets, and that this reduction would be added to the price received by the farmers for their grain.

As typical of this argument, we note the words of Mr. Hoover, the chairman of the United States St. Lawrence Commission, in his report to the President in 1926. He says:

With the completion of such a shipway as the St. Lawrence, the freight rates on grain to world markets would be substantially reduced and as a consequence the price levels of all grain in the Lakes transportation area would be increased accordingly. Much the same type of economic reaction would affect other commodities and industries. It has been estimated that the values in a single year to the farmers alone would equal the capital cost of the waterway.¹⁴

Whatever his other qualifications may be, Mr. Hoover's insight into economic matters, judged by the foregoing, is sadly defective, as we shall show; and similar misleading and exaggerated statements have been made by many others.

The United States Department of Commerce had an investigation made in 1926 by two of its officials who estimated that via this ocean ship route the cost of transportation of wheat to the seaboard would be reduced by 4.7 cents to 9.6 cents per bushel below the all-water rates that were then in force.¹⁵ On the basis of their estimates, they stated that grain could probably move from the lakehead to Liverpool for 9 or 10 cents per bushel. A similar statement, that the

¹⁴ *Report of the U.S. St. Lawrence Commission*, 69th Cong., 2nd Sess., (Sen. Doc. No. 183, p. 2; also *Report of International Joint Commission*, 67th Cong., 2nd Sess., Sen. Doc. No. 114, p. 79.

¹⁵ E. S. Gregg and A. L. Cricher, *Great-Lakes-to-Ocean Waterways* (Washington: Government Printing Office, 1927), Domestic Commerce series No. 4, pp. 62, 72.

transportation cost would be reduced by 8 to 10 cents per bushel, in the case of grain, has been repeated endlessly. It was made first in a partisan study by MacElwee and Ritter in 1921, on behalf of the Great Lakes-St. Lawrence Tidewater Association,¹⁶ and it is surprising that the International Joint Commission, in its report of 1921, referred so frequently and favourably to this work.¹⁷ One of the authors, however, in a later and more substantial study, changed his mind and said, "that we are justified in believing that the farm prices would be benefited to an average minimum of 15 cents per bushel" throughout the entire area tributary to the Great Lakes.¹⁸

To show how impossible a saving of 8 to 10 cents per bushel would be, we have only to recall that the rates on wheat from Montreal to Liverpool and Glasgow vary from 4½ to 8 cents per bushel, and that the rates from the head of the Lakes to Montreal have averaged in recent years from 7½ to 8½ cents per bushel.¹⁹ If, therefore, the proposed St. Lawrence waterway were to effect a saving of 8 to 10 cents per bushel, it would mean that the grain would be carried all the way from Fort William to Montreal for nothing. Even a saving of 5 cents per bushel is beyond the mark, for in the summer of 1931 we have seen wheat carried from Montreal to Liverpool for a normal rate of 4 cents per bushel.

At the hearings before a special committee of the Canadian Senate, in 1928, the Deputy Minister of Railways and Canals, following a protracted inquiry, stated that, when the waterway is improved so that the large upper-lake vessels can come down to Montreal he thought it might be possible to

¹⁶ R. S. MacElwee and A. H. Ritter, *Great Lakes-St. Lawrence Ship Channel* (New York: Ronald Press, 1921), p. 290.

¹⁷ *Report of International Joint Commission*, 67th Cong., 2nd Sess., Sen. Doc. No. 114, parts III, IV.

¹⁸ A. H. Ritter, *Transportation Economics of the Great Lakes-St. Lawrence Ship Channel* (Washington: Great Lakes-St. Lawrence Tidewater Association, 1925), pp. 224, 273. This study also is sponsored and published by the Great Lakes-St. Lawrence Tidewater Association.

¹⁹ *Report on the Grain Trade of Canada, 1929* (Ottawa: King's Printer, 1929), pp. 167-8.

effect a reduction in the cost of transportation of grain of 3 cents per bushel from Port Colborne to Montreal, as measured by the rates now charged by the canal-sized boats on that route. But he was careful to state that "nobody can forecast what the rates are likely to be in the future" and that the saving he had mentioned did not take into account the cost of construction of the waterway nor the interest on that cost.²⁰

We hesitate to accept this view that there might possibly be a saving of 3 cents per bushel as a result of the large upper-lake vessels going down to Montreal. When the rush season is on in the fall these vessels could not afford to spend their time going to and from Montreal through the restricted channels and canalized section of the river unless compensated by higher rates than those charged by the present cheap lower-laker or canaler. It would take longer to go from Port Colborne to Montreal and return than to go from Fort William to Port Colborne and return and unless the rate in the former case were at least equal to that in the latter there would be every inducement for the vessels to unload at Port Colborne and not go to Montreal.

But, assuming that there would be a saving of 3 cents per bushel on wheat by the deeper waterway, would this benefit the western farmers whose grain provides 85 to 90 per cent. of the traffic on the St. Lawrence route? We say without hesitation, No. The price of export wheat—and therefore of domestic wheat—is made in Liverpool, the centre of the import demand. If there were only one country which furnished the export supply and the control of this supply were concentrated in a few hands, while there were many countries importing therefrom, those who controlled the supply would be able to dictate the price. But the actual conditions are just the reverse of this. There are many countries engaged in exporting their product—Canada, United States, Argentina, Australia, British India—and the demand for this wheat is concentrated at Liverpool. Hence it is the Liverpool buying market which controls the price of the wheat.

²⁰ *Proceedings of the Senate Committee*, 1928 (Canada), pp. 217, 228.

There is no one who is more fully conversant with the mechanism within which he must do business than the Liverpool importer. All the various factors which affect the trade the world over are made available to him through the Grain Exchange. Any factors, such as frost, rain, drought, etc., which alter the conditions of supply in any country are registered there for his information; and, in the same way, anything which changes the demand for the wheat in any country of the world is also shown there. If, as a result of the canalization of the St. Lawrence, Canadian wheat could be landed in Liverpool at a lower cost of transportation, the Liverpool buyer would not go on paying his former price, but would bid a price which would be as much lower as the reduced transportation cost would warrant. Here, at the seat of the price-making forces, all or nearly all of the reduction in transportation cost would go to the Liverpool importer in the form of the lower price for wheat.

This is exactly the same policy as is pursued by business men in every line of service. If a department store in Toronto can buy Irish linens cheaper in New York than in Belfast—as is possible at the present time—it will make its purchases in New York. If the cost of transporting coal to Toronto from Wales is reduced, as a result of lower freight rates on the ocean, the coal importing companies in Toronto will immediately demand their supplies at the lowest price consistent with the reduced cost of carriage. If, as a result of decreased cost of production, the farmers can sell grain at a lower price, the buyers will profit by this in purchasing their supplies at the correspondingly lower price. The Liverpool importer in this case is simply using his reason and judgment in offering the lower price for his purchases of wheat.

But, in case the proposed waterway were constructed and it should make possible a saving of 3 cents per bushel in the carriage of wheat to Liverpool, if the British importer did not get the full benefit of the 3 cents in his price, there are other interests between the farmer and the importer who would be interested in getting a share of the saving. There are the ocean carriers, the inland carriers, the grain brokers, and many others who are essential intermediaries in the

grain trade; and it would be inevitable that, if there were anything left after the importer had taken all he could get by his reduced price, the remainder would go to those who are organized most strongly as strategic factors in the trade. It is not difficult to see, therefore, that none of the saving in transportation cost would ever get back to the residual claimants, the unorganized farmers. The fact is that virtually the entire saving would accrue to the transoceanic importer, while the Canadian taxpayers would bear the cost of the improvement. Those who hold that the reduced cost of carriage would be reflected in the higher prices received by the farmers for their wheat are "blind leaders of the blind." Here, again, as in the matter of the cost of this enterprise, it is high time that Canadian people should wake up to the real significance of the impending issue.

Lest there should be any who may still be hesitant about the reality which we have just been considering, let us recall a case in point from the experience of the year 1929 which exemplifies clearly what we have said. In the winter of 1928-29, following two years of unusually large wheat crops in Canada, United States, Argentina and Australia, the congestion of the wheat markets of Canada and the United States caused much apprehension. The elevators and storage facilities of the interior of United States were usually filled to capacity, with the stocks of wheat at the highest point they had ever reached. There was deep concern over the situation during the winter of 1929, when the wheat was not moving from United States' stores. The eastern railroad executives, after mature consideration, and having no assurance that freight rate reductions would be of any assistance in advancing the price realized on wheat, reached the conclusion, on April 25, 1929, that there should be no reduction in the freight rates on grain. By May 1st, however, the administration at Washington was desirous of having a rate reduction and the railway executives acceded to this course. The government hoped that the reduced rates would cause increased exportation of wheat, that it would help to dispose of the large wheat supply on hand before the new 1929 crop came on the market, and would further tend to avert the decline in wheat prices then under way.

The reduced rates were made effective May 12th on ex-lake wheat and, a little later, reductions were made from other points in the central west to the Atlantic and Gulf Coasts. For example, the rate on ex-lake wheat and flour from Buffalo to Atlantic ports was reduced by $3\frac{3}{10}$ cents per 100 lbs., from Chicago and St. Louis to Atlantic ports by $5\frac{1}{2}$ cents per 100 lbs., from St. Louis to New Orleans by $5\frac{1}{2}$ cents per 100 lbs. and from Kansas City and other west central points to the Gulf ports by $11\frac{1}{2}$ cents per 100 lbs. The reduced rates were designed as an emergency measure and were to remain in effect till Sept. 30, 1929. In order to retain the long-established rate relationship between the Canadian railway rates and those in the United States, the Canadian carriers were authorized by the Board of Railway Commissioners to reduce their export rates on grain to the same extent as their United States competitors.

Under the reduced rates, the wheat began to move from the interior points to the Atlantic and Gulf ports until the supplies there were much in excess of those of the previous year and of the average for many years. But the amount of wheat exported from these two countries in 1929 was considerably less than the average, chiefly on account of the large supplies marketed by Argentina and Australia. The prices of Canadian and United States wheat in Liverpool, which were falling before the freight rate reduction became effective, continued to decline still further after that time. On May 2nd, May futures on the Liverpool market were quoted at \$1.21 per bushel, but on May 11th they were only $\$1.11\frac{7}{8}$, a drop in price of $9\frac{7}{8}$ cents per bushel. The price decline continued for a month after the rate reductions became effective. The lower prices of wheat in the great markets were reflected in the corresponding decline in the farm and country elevator prices, and the prices during the entire period from May to November were controlled by the fundamental forces of supply and demand, not by freight rates. Under these conditions the farmers received less for their wheat, the railways received less for their service, and the benefit of the lower freight rates was reaped by the trans-At-

lantic importer.²¹ Similar results would be realized by any "saving" there might be as a consequence of the development of the St. Lawrence.

(3) The third argument in favour of the St. Lawrence project is that it would keep the Canadian grain trade moving through Canadian channels and would divert to Canadian channels the large amount of Canadian grain which has been going through United States channels into the export market.

Taking the average figures for the last three years for which government statistics are available, namely, 1926-7 to 1928-9, of all the Canadian grain exported, 3 per cent. goes to the United States direct, 48 per cent. goes out via United States Atlantic ports to Great Britain and other countries, and 49 per cent. goes out via Canadian ports of the Atlantic and Pacific.

Of all the Canadian grain exported through Atlantic seaboard ports, during the same time, on the average 66 per cent. goes out via United States ports and 34 per cent. via Canadian ports.

It is argued that the improvement of the St. Lawrence would draw a very large proportion of the grain now going out through United States channels back to the all-Canadian channel, and enable it to go out to foreign markets at a lower cost for transportation when it goes by the all-water route to the port. This contention is worthy of examination. Let us see the system under which the rates are adjusted.

Most of the wheat shipped eastward from the lakehead is carried across the Lakes and put into the elevators of the Georgian Bay and Lake Huron ports and of Port Colborne and Buffalo. Only a very small amount of it moves eastward from the head of the lakes by the all-rail route. From the Bay ports it is carried by rail to the St. Lawrence ports and to the Maritime ports for export. The railway rates from

²¹ A good study of this is to be found in *A Study of the Economic Effect of Reductions in Freight Rates on Export Wheat, 1929* (Washington: Bureau of Railway Economics, 1930), Special series No. 55.

See also "Wheat Prices and Freight Rates," *Railway Age*, Vol. 87 (1929), pp. 135-6, 803-4.

²² But in some cases elevator charges are included, in others not included; e.g., the Buffalo to New York rate absorbs not over 1c per bus. out of the charges at Buffalo and also in some cases elevating or dumping charges at New York. The rate from Bay ports to Montreal includes elevator charges at Bay ports and Montreal. The rate from Bay ports to the Atlantic seaboard includes only elevator charges at Bay ports. *Proceedings of Senate Committee*, 1928 (Canada), p. 219-20.

will bear." Since the all-water rates are made so as to keep well below the water-and-rail rates, it is evident that it is the water-and-rail rates, and especially the rail rates, which control the all-water rates. A very substantial reason for this is that the all-water carriers could not begin to handle the entire traffic.

But since the Canadian railway rates, as we have noted, are controlled by the Buffalo-New York rates, it may be of interest to note some of the important forces which are at work drawing the Canadian grain through that route, notwithstanding equal or slightly lower rates via Canadian channels:

1. New York, being the key port for the North Atlantic service, has such abundant facilities for shipping that vessel accommodation can be had there at all times for shipments to any of the important ports or countries of destination.

2. New York is a liner port, and the liners are always desirous of obtaining grain as ballast, rather than having to take water. The grain will pay something for carriage while the water could pay nothing. But since shippers prefer to send their grain in ship-load lots, rather than in smaller amounts, the liners must bid the lowest rates for the amount of grain they need to help make up their ballast requirements after stowing a satisfactory amount of good-paying cargo. These liner rates are normally much lower than tramp vessel rates, and grain is ever seeking the lowest rates obtainable.²³

On the other hand, the amount of liner tonnage outbound from Montreal is wholly insufficient to provide for the grain movement there, and when the movement is heavy, as in the fall of the year, there are sometimes thirty or forty tramp vessels there ready to be chartered. The tendency at Montreal is, therefore, toward higher rates than those at New York.

²³ Few tramps go to New York, for the expense of docking is too great and they cannot compete with liners in the matter of rates. Most of them go to Philadelphia, Baltimore and Montreal on the North Atlantic and to the ports of the Gulf of Mexico.

3. The insurance rates via the St. Lawrence route are higher than those from New York because of the greater risks of navigation.

4. The port of New York is open all the year and regularity of service is maintained. Business becomes accustomed to such regularity and tends to flow in that direction. On the contrary, the port of Montreal is open only seven months of the year, so that business which uses this outlet during that time must be diverted to another channel for the remainder of the year. Such a break in the trade connections does not conduce to the upbuilding of established relations and development of traffic.

5. Finally, we may note the abundant facilities of five railway systems between Buffalo and New York, namely, the New York Central, the Erie, the Pennsylvania, the Lehigh Valley and the Lackawanna. These make possible the fastest conveyance of freight and assure traffic of appropriate connections with outgoing steamers without inconvenience or delay.²⁴

With these strong forces drawing the grain through the United States via New York into the international markets, it is practically certain that, if the rates by the proposed waterway were lowered, the railways from Buffalo would meet the water rates at every change. It is inconceivable that the United States railways would stand by helpless and see the enormous volume of this traffic diverted from them. And if the United States roads reduced their rates on this wheat, the Canadian railways would have to follow suit; and the outcome would be that, while the western farmers received a lower price for their wheat, the rail carriers would also find their revenues from the traffic depleted.

Ever since the development of the grain trade along the Great Lakes-St. Lawrence route became important, the United States interests have provided the utmost facilities for its diversion via the North Atlantic ports of that country; and if there is one reason which will favour the deepening of

²⁴ These advantages are given in more detail in *17 B.R.C. 131*, pp. 192-6.

the St. Lawrence it is the desirability of preventing the diversion of the grain along this route through United States channels. Hitherto, Buffalo has been the port at which most of this diversion has taken place. Now that the Welland Ship Canal is to be opened and Oswego has been preparing to take the place of Buffalo as the grain-diversion port, it is very likely that a substantial share of the grain will be carried to this Lake Ontario port for forwarding to New York, since the distance from Oswego is only about one-half the distance from Buffalo to either Albany or New York. The elevator facilities at Oswego could soon be increased to handle a large amount of this trade. Then, just as soon as the channel was deepened to Prescott, the latter's rival on the New York shore, Ogdensburg, had a deep channel constructed to the main grain route of the St. Lawrence in order to divert as much grain as possible from the Canadian channel.

But if the St. Lawrence were deepened through to Montreal there would be at least one factor which would tend to hold a larger proportion of the grain trade within the Canadian course. The distance from Prescott to Montreal would be much less than from Ogdensburg to New York and at Montreal the services of ocean vessels would be available for the carriage of grain by a shorter route to Liverpool. Of course, as we have noted above, distance is not the determining factor of ocean rates; it is the cost and the facilities of carriage which determine the route which the grain will take on its way to the final destination.

(4) A fourth argument in favour of the St. Lawrence Waterway project is that it would prevent the congestion of traffic on the railroads.

Much was made of this by witnesses in the United States who gave evidence before the International Joint Commission in 1920;²⁵ and, while the Commission allowed this plea so far as the conditions in that country were concerned, it stated in no uncertain terms that the railways of Canada are considerably ahead of the requirements of this country.²⁶ The fact

²⁵ *Report of International Joint Commission*, 67th Cong., 2nd Sess., Sen. Doc. No. 114, pp. 68-70.

²⁶ *Ibid.*, pp. 157, 163.

is that lack of traffic is the greatest impediment in the way of the Canadian railways. If there is one thing which stands out so clearly as to be an ever-present reality it is that we have been prodigal in our over-investment in railways; and this fact should teach us wisdom that we should not over-invest also in waterway transportation.

But even if it were true that the United States railroads were "taxed to capacity" at the present time,²⁷ how could the proposed waterway be of real assistance when it would not furnish transportation during the period of the year when railroads are called upon to carry the peak load of traffic? The railroads of that country have always been able to meet the fullest requirements of the traffic during the summer. It is during the late fall and winter months that the peak load occurs and this is just the time when the St. Lawrence route is closed. The need of the proposed improvement of this waterway for the purpose of relieving the railway facilities occasionally, rests upon an entirely untenable foundation. It is true that in very rare instances the United States railroads have had difficulty in handling the traffic of a particular region; the wonder is that, with the Interstate Commerce Commission refusing to grant rates which were sufficiently high to enable the roads to constantly enlarge their facilities as desired, the congestion of traffic did not occur much more frequently.

Frequent reference has been made to the effect that the existing St. Lawrence canals are at or near to the point of their utmost carrying capacity. But a recent report made by two disinterested and competent engineers of Montreal, Messrs. Holgate and Jamieson, shows that the existing canal system has never been taxed to its full capacity and that at comparatively small cost its capacity and its efficiency could be greatly increased,²⁸ especially if brought up to the standard of the Soulanges and Lachine Canals. This view was also taken by two government engineers in a report made to the government in 1927 urging the choice of Prescott as the

²⁷ *Op. cit.*, pp. 68-71; *Proceedings of Senate Committee*, 1928 (Canada), p. 312.

²⁸ Holgate and Jamieson, *op. cit.*, pp. 23, 46.

place for the construction of the grain elevator to receive the grain brought down by the upper-lake vessels after the opening of the Welland Ship Canal. Their report stated:

If, as the facts show, that an increase in present lockage capacity of 54% will care for all canal tonnage in use, then it is obvious that the first thing to do is to provide this increased capacity in our present canals. This can be done at an expenditure of about \$3,000,000 and will serve for many years. This will not prevent the development of power.²⁹

But there are other aspects of this traffic matter which need to be considered; and, first of all, it must be noted that in recent years there has been a very significant change in the production of wheat in the west and also in the trade route by which this wheat reaches the consuming markets of the world. Manitoba is no longer the premier wheat producing province of the Dominion. The centre of our wheat production has moved farther west. To show the facts here, during the normal period before the present depression, we have set down the following statistics in Table I.

TABLE I.

PRODUCTION OF SPRING WHEAT IN PRAIRIE PROVINCES*
(In thousands of bushels)

Years	Manitoba	Saskatchewan	Alberta
1920	37,542	113,135	82,748
1921	39,054	118,000	51,576
1922	74,433	250,167	64,137
1923	35,804	271,622	142,475
1924	41,464	132,918	60,797
1925	33,624	235,472	97,716
1926	47,133	219,646	113,570
1927	30,773	252,500	168,921
1928	52,383	321,215	168,100
1929	31,565	154,565	88,181

* Taken from the *Annual Report on the Grain Trade of Canada* (Ottawa: King's Printer).

Computing the averages of these figures for the first three years and for the last three years we find the following annual averages for spring wheat production:

²⁹ *Ibid.*, p. 26.

TABLE II.

AVERAGE ANNUAL SPRING WHEAT PRODUCTION
(In thousands of bushels)

Years	Manitoba	Saskatchewan	Alberta
1920-22	50,343	183,767	66,154
1927-29	38,240	242,760	141,734

These figures show that, in 1927-29 the average production in Manitoba decreased 24 per cent. below that of 1920-22; in Saskatchewan, increased 32 per cent. above that of 1920-22; in Alberta increased 114 per cent. above that of 1920-22.

It may serve to impress this fact still more if we say that in the last seven years before the existing depression, i.e., 1923-9, the spring wheat production in Manitoba was 272,746,000 bus., in Saskatchewan 1,587,938,000 bushels, and in Alberta 839,760,000 bushels; in other words, Alberta produced three times as much as Manitoba, and Saskatchewan about six times as much.

With these changes in production, it would be natural that the Pacific ports should attract a larger and larger share of the wheat export trade. In order to show what has taken place in this respect, we give the following figures of wheat exports.

TABLE III.

EXPORTS OF CANADIAN WHEAT
(In thousands of bushels)

Years	Via Canadian Atlantic seaboard	Via Canadian Pacific seaboard	Via United States Atlantic ports
1920-21	32,301	106	50,166
1921-22	34,836	7,837	89,845
1922-23	69,045	17,830	115,800
1923-24	67,618	53,285	128,760
1924-25	44,723	23,992	60,356
1925-26	69,964	52,955	113,948
1926-27	67,465	39,934	105,599
1927-28	57,610	86,596	135,929
1928-29	92,373	97,958	154,034

From these figures it will be noted that from 1921-22 (the first year when Vancouver really began to attain a place as an export port) to 1928-29, the export of wheat from Canadian Atlantic seaboard increased by 165 per cent., from the

Pacific seaboard by 1150 per cent., and from the United States Atlantic seaboard by 71 per cent. It will also be noted that in the last two years the export of wheat from our Pacific ports exceeded the export from our Atlantic ports. Surely nothing further is needed to prove that the stream of export wheat which formerly flowed only through the eastern channels has been diverted in a large measure to the western channel.

In connection with this Pacific outlet, it may be useful also to recall that the great wheat-producing Peace River country will be tributary thereto, thus increasing the flow through what is likely to be in a few years the great artery of the western grain trade. Then, too, if the Hudson Bay route should prove to be of importance, it would tap the traffic of Manitoba and eastern Saskatchewan, and leave that much less to go by the St. Lawrence route.

Since the St. Lawrence is predominantly a grain route—the movement of grain constituting 85 per cent. of its traffic—and since the western grain is being shipped in proportionately greater volume through the Pacific ports, any large expenditure upon the St. Lawrence waterway could scarcely be justified on economic grounds. As we have shown, by a very small expenditure upon the St. Lawrence canal system its capacity could be greatly enlarged and this would be amply sufficient to provide for all the requirements for many years to come. In the meantime one uncertain factor in the world's wheat situation, namely, Russia, leaves us without any stable foundation upon which to build any enduring structure of international trade in this commodity.

(5) A fifth argument for the St. Lawrence development is that as a trade route it would duplicate the results of the Suez, Panama and Manchester canals.

We need only mention here that these canals are open throughout the entire year, while the St. Lawrence is open only seven months of the year. In the matter of traffic possibilities, therefore, there is no reasonable comparison.

The pertinent question will be asked, Why should Canada pay half the cost of providing a free waterway on the St. Lawrence for the ships of all nations which may be able to use it? The United States charges Canadian as well as all

other vessels the tolls for passing through the Panama Canal and we can see no justification for Canada's embarking upon a great construction project of this kind so as to provide a free waterway for United States or other interests. We consider that the recent action of the Hamilton Chamber of Commerce is very much to the point when it came forward with a resolution saying that inasmuch as the expense of deepening this waterway could not be justified by any prospective savings or advantages to Canadian traffic:

a system of tolls should be established through the operation of which the cost of interest, depreciation and operation would fall, not upon the Canadian taxpayer, but upon all shipping using these waterways, as in the case of the Panama Canal.

(6) Finally, the deeper waterway is advocated because water transportation is cheaper than railway transportation,³⁰ and therefore stimulates business all along the line.

We fully agree with this when it applies to operation on the ocean or on the broad Lakes—routes which are provided by nature—but the case becomes entirely different when we are considering routes which have been made and kept navigable by governmental expenditures. Even those who advocate the cheapness of water transportation do so upon condition that the cost of construction be left out of consideration. In other words, if we omit the largest item of the cost of water carriage, the rate is cheaper than the rail rate.³¹ But let us see how the issue is changed when all costs are taken into account.

A very careful study of the New York State Barge Canal was recently made by the Bureau of Railway Economics.³² The cost of this canal to the people of the state was nearly \$231,000,000, including interest on the capital cost. The state operates the canal system and imposes no tolls for its use. The boatmen charge what they like—"what the traffic will bear"—and are not subject to any control. Most of the traffic consists of commodity movements of grain, sand, stone,

³⁰ *Proceedings of the Senate Committee, 1928* (Canada), pp. 217-218, 225.

³¹ *Ibid.*, pp. 236-7.

³² *Comparison of Transportation Costs by Rail and via Barge Canal*, (Washington: Bureau of Railway Economics, 1925).

clay and gravel. In 1923 the ton-mileage of freight carried was 405,925,906, and the following computation gives us the average cost per ton mile for that year:

Cost of capital, including interest	2.094	cents
Cost of operation, maintenance and repair	0.937	"
Boatman's charge for carriage	0.450	"
Total	3.481	"

But while the average cost per ton-mile on the Barge Canal was 3.481 cents, the average railway rate for freight service in the eastern district, where the canal is located, was only about 1.104 cent per ton-mile; that is, the canal cost was more than three times that of the railway, when all costs are considered.

Superintendent F. S. Greene, Department of Public Works, New York State, in his annual report for the year 1925 stated:

In 1925 it cost the state \$4.51 a ton for all freight floated on the canal, regardless of the length of haul. . . . a fair average rail rate on the commodities carried by canal from Buffalo to New York, the longest haul, is \$3.70 a ton. From these figures it is evident that it would have been cheaper for the state if all the freight carried on the canal had been put on railroad cars and the state had paid the freight bills.

Yet, in the face of the low operating expenses for those who are using the canal, Superintendent Greene stated in his annual report for 1924 that while that was the Barge Canal's heaviest tonnage year, it "carried approximately only ten per cent. of its estimated capacity."³³

A few other words from his annual report for the latter year would constitute a vital message for those who are advocating the construction of the St. Lawrence project to-day. He says:

The State has wasted thousands of dollars in the construction of terminals which have never been used and the installation of terminal appliances which have never handled a pound of freight . . . the State proceeded on the theory that it should build the terminals and the boats would follow, and I think it has been demonstrated now that the proper procedure was to see if any boats were going to use the canal before ex-

³³ *Annual Report*, 1924, p. 12.

pending millions on terminals which have never served any useful purpose or received any canal freight.³⁴

In the hearings before the committee of the Canadian Senate in 1928, Mr. James Playfair, one of the oldest, most competent and thoroughly informed shipping men on the Lakes, said: "You give me the interest on your deep waterway canal and I will move all the grain from Fort William for nothing."³⁵ And, it must be acknowledged, this would be a good bargain for him. In answer to a previous statement made by the Premier of Manitoba to the farmers that this waterway would lower their transportation rates 7 cents per bushel, Mr. Playfair had written him that he would take a contract to move all the grain for 7 cents per bushel from the lakehead to Montreal.³⁶

The next aspect is that of studying the operation of international treaties in effect. Two treaties are of particular significance in connection with these inland navigation facilities.

By the Treaty of Washington, 1871, it was provided that the navigation of the River St. Lawrence, "ascending and descending from the international boundary [Cornwall-St. Regis] to the sea," was forever to remain free and open for the purposes of commerce to the citizens of both countries on terms of equality. But what constitutes commerce, and what constitutes equality of rights consistent with the maintenance of Canadian national jurisdiction, has never been determined.

This treaty also contains a clause regarding the use of the canals and Sir John A. Macdonald was then astute enough to have this worded so that the British Government engaged to urge upon the Canadian Government to secure for the citizens of the United States the use of the Welland, St. Lawrence and other canals in Canada on terms of equality with Canadian citizens.

On the other hand, the United States Government agreed that British subjects should have the use of the St. Clair

³⁴ *Op. cit.*, p. 16. No more scathing indictment could be made of such a governmental enterprise than is given in this report, pp. 13-23.

³⁵ *Proceedings of Senate Committee*, 1928 (Canada), p. 253.

³⁶ *Ibid.*, p. 248.

Flats canal on terms of equality with United States citizens, and further engaged to urge upon the state governments to grant British subjects the use of the several state canals connected with the navigation of the Lakes or the rivers flowing into the boundary waters.

Canada has never raised any objection to the use of its canals by the United States, although difficulty did occur as to Canada's use of the state canals.³⁷

The second treaty is the Boundary Waters Treaty of 1909, under which the International Joint Commission was set up to consider certain broad questions regarding boundary waters then under dispute.³⁸

Article 1 of the treaty provided "that the navigation of all navigable boundary waters shall forever remain free and open for the purposes of commerce" to the people of both countries equally, subject to any laws or regulations of either country not inconsistent with this privilege. So long as this treaty should remain in effect, the same right of navigation should extend to Lake Michigan and to all canals connecting boundary waters, now existing or which might be constructed subsequently on either side of the line. Either country might adopt rules regarding the use of such canals within its own territory, and might charge tolls for these canals, but all tolls should apply alike to both countries. This gives the United States no rights in canals except those connecting boundary waters; for example, they have rights in the Soo canals and the Welland canal, but not in the Soulanges or Lachine canal, for the latter do not connect boundary waters.

Article 3 of the treaty is very important. It provides that no further or other uses or obstructions or diversions, whether temporary or permanent, of boundary waters on either side of the line, affecting the natural level or flow of boundary waters on the other side of the line should be made except by authority of the country whose consent is necessary, and then only with the approval of the International Joint Commission. Many important cases have come up for consideration under this clause of the treaty, such as the

³⁷ *Ibid.*, pp. 75-76.

³⁸ *Ibid.*, pp. 78-97.

Chicago Diversion case, the Massena Dam case, the St. Croix River Diversion case, etc.

This clause was not to prevent either government from carrying on governmental works in boundary waters for deepening channels, construction of breakwaters, improvement of harbours, etc., provided such works were wholly on its own side of the line, and did not affect materially the level or flow of the boundary waters on the other side, nor did not interfere with the use of such waters for domestic and sanitary purposes. It is under this provision that the Chicago Drainage canal has sought justification.

The fact is that there is scarcely an article of this treaty which is not capable of two or more interpretations according to the diverse points of view of different legal minds representing different interests concerned.

Recent developments in connection with the St. Lawrence project are interesting and may be treated briefly. Notwithstanding the declaration of the convention of the Conservative party at Winnipeg, when the present Dominion leader of that party was chosen, that there should be no collaboration with the United States in the construction of the St. Lawrence project, the Premier has recently been carrying on energetic negotiations with Washington with the object of having a treaty drawn up and signed by the two countries, ready for presentation at the present session of parliament. His explanations were given to the House on Feb. 8th, 1932, and are as follows:

We are not hurrying the St. Lawrence waterway treaty. All you have to do is look at the map and see your completed Welland canal and your twenty-seven foot waterway to Albany, and then you know why the Canadian government is concerned about the matter . . . the reason why this government is now carrying on negotiations for the completion of that waterway is . . . that the development we have reached in connection with our own canal system and the canal systems of our good neighbour to the south makes it essential that now, and at no other time, we should consider it . . . there are occasions in the lives of nations as of individuals when decisions have to be made or the opportunity is gone forever. That is the situation here.³⁹

In other words, the United States is holding the club over Ottawa's head and threatening the latter that, unless they

³⁹ *Debates of the House of Commons (Canada)*, Feb. 8, 1932.

draw up a treaty now for pushing the St. Lawrence waterway, that country will go its own way and put through a 27-foot waterway from the Lakes to Albany, where there is connection with the ocean.

Our answer to that threat is:

(1) That a government, like an individual, which makes a threat has a very weak case. The strong man, who is sure of himself and his cause, never threatens. He does not need to threaten, for if action is to be taken he is assured of the outcome.

(2) That the United States army engineers have previously made a complete survey of this suggested waterway through New York State and have shown that its cost would not be any more justified than the cost of the Barge Canal noted above has been. In fact, recommendation was made against its being undertaken.

(3) That the United States has been using inland waterway development as a means of securing votes for the administration, during such a long period, that if the "pork barrel" became depleted there might be a serious defection of the voting power. The government is not disturbed about the economic interests of the transportation machine, for in his message to the 1929-30 Congress the President said:

As a whole, the railroads never were in such good physical and financial condition, and the country has never been so well served by them. The greatest volume of freight traffic ever tendered is being carried at a speed never before attained and with satisfaction to the shippers. Efficiencies and new methods have resulted in reduction in the cost of providing freight transportation, and freight rates show a continuous descending line from the level enforced by the World War.

Since, therefore, the transportation needs of that country are being so well cared for, what is behind this ostensible threat made to the Canadian Premier to get him to undertake the making of an immediate treaty for construction of the St. Lawrence project? Or, can it be possible that the latter is giving to the Canadian people an interpretation of the negotiations which he hopes will justify his departure from the platform of the party when he was chosen as leader? We forbear to enter political discussions.

Two things have been kept in mind by the Washington administration in urging the undertaking of this international

enterprise. One of these is to make capital out of the western farmers' discontent with the railways—which in turn has been fomented by politicians—by showing that efforts are being made to “bring the ocean to their doors.” The other is the desire to get a greater hold upon the enormous but only partially developed resources of this country. Since the administration, as we have shown, is abundantly satisfied with their present transportation service, the chief interest must be in the power possibilities of the St. Lawrence, so as to furnish the New York and New England mills with the cheapest and most effective power supply. It is well known that United States capitalists have long had their eyes on the rich power resources latent in the St. Lawrence; but Canada can get her power supplies cheaper from other sources for many years to come.

From those who are close to the Washington authorities, we have learned that that administration has been giving careful study to this whole problem for two years or more. United States capital has been deeply interested in getting a larger stake in the business interests along the St. Lawrence valley, including the purely domestic section. Legal experts have been studying the treaties now in effect and the best phraseology to employ in the drawing up of a new treaty or agreement so as to give that country the greater control which it desires. On the other hand, Canada has been giving no thought to this matter until recently, and has given very little even now. It has been shown over and over again that there are “jokers” in most of the articles of the Boundary Waters Treaty of 1909; that the words are capable of different interpretations according to the interest of those who interpret them. With the slight consideration which has been given to this matter by Canada and the prolonged study given to it by the United States, what chance is there that Canadian interests would be safeguarded, so that the United States should not be given any more control than it now has over the St. Lawrence—the only important purely Canadian outlet to the Atlantic?

Suppose the preamble to the proposed agreement or treaty should contain the apparently innocent words:

In view of the desirability of improving the entire St. Lawrence waterway for the mutual benefit of Canada and the United States, the High Contracting Parties do now agree to enter upon the construction of the international section of this waterway, etc.

Where would Canada be? She would have lost all claim to the control of even the domestic part of the river.

All that the United States wants at the present time is to have an agreement drawn up which would warrant the immediate beginning of construction along the international section. All the other benefits will follow in their own good time.

Suppose work were undertaken to develop the 2,200,000 horse power of the international section. The United States could now absorb its half of this supply, but Canada could not take up its share, although it might be able to furnish a market by the time the work would be completed. The United States, however, could absorb much more by that time; and, in order to get it, she would make representations to Canada that, since the cost of developing the full power possibilities of the river would be much less if the work were all done at once than if it were done piecemeal, the two countries should complete the work and thus make the surplus power a great source of wealth to Canada. It is true that there is a well understood desire by Canadian people that the power belonging to us should not be exported. But it would not be difficult for the United States government to convince a credulous government in Canada that the unused power could be exported for a time and yield a large revenue to us, and then when we needed it the export should cease. In Canadian experience we have already known that power exported to the United States has been used to build up vested interests there and could not be returned when wanted here. Would this be any different?

If, on the other hand, the power were developed beyond our capacity to absorb, simply because it was cheaper to have the full potentialities developed at once than over a series of years, and if this surplus power were not exported, the accumulated interest charges during the unused years would soon increase greatly the expense of the power here.

There are several other important aspects of this project which we cannot consider at this time. In closing, we ask three questions: (1) Would the large expenditure on this waterway be economically justifiable? (2) Is Canada, with her enormous financial obligations, in a reasonable condition to embark upon a project of such financial magnitude? and, (3) Does past and present experience in international relations conduce to confident co-operation in this venture?

TRANSPORTATION PROBLEMS—DISCUSSION

LESSLIE R. THOMSON.—In opening I should first like to thank the chairman, Professor Urwick, for his kindness in extending the time available to me for it is impossible to present any reasonable or intelligent discussion of so great a question within a few minutes.

My discussion to-night of Professor Jackman's paper will divide itself into two sections. The first, part A, deals with a succession of individual points which are worthy of the attention of the audience, and the second, part B, considers certain broad considerations bearing on the general subject, not developed by Professor Jackman. Such omissions are real gaps in an otherwise most valuable paper. For convenience I shall number the points in part A consecutively.

1. COST

Professor Jackman gives as a figure for the cost of the waterway \$536,000,000 without interest during construction, and then suggests that this figure should be divided on a 50 per cent. basis between Canada and the United States. There are, however, two points to discuss before accepting this figure. The first (a) is that it includes a considerable power development—1,365,000 installed horse power. Power is a utility or service that ultimately pays for itself. The financing in the long run is not a charge on the public purse. The rates paid by the consumer always include the cost of the capital used and the operating charges incurred. Consequently, so far as ordinary citizens are directly interested, the real concern is with the cost of the project as a navigational enterprise, because as a long continued policy the governments of this continent are committed to the furnishing, without direct charge to the individual citizen, navigation facilities as a national or state enterprise. Therefore, the inclusion of capital power costs in a navigation discussion tends to confuse the issue.

The second point (b) involved is that, even admitting the usefulness or propriety of mixing power and navigational capital, Professor Jackman divides his total capital plus the interest during the construction figures into two equal portions—one to Canada and one to the United States. But the power included by Professor Jackman includes power developed in two river sections, one the International Rapids section and the other the purely national (Soulanges) section. Therefore, it is economically incorrect to divide the figure on a fifty-fifty basis, because of the total power mentioned by Professor Jackman a great deal more than 50 per cent. belongs to Canada in any event. It is obvious, therefore, that there is here an actual error in ordinary economic analysis.

However, reverting to the original point, my feeling is that in all discussions of the waterway, separate estimates of power capitalization and of navigation capitalization should be established by writers and students of the problem.

Time does not permit me to submit during such a discussion any complete analysis of the total estimated cost of the waterway as a navigation enterprise. But I may observe that it is about \$360,000,000 or \$370 000,000, without interest during the construction period. This figure includes the actual cost of the new Welland Ship Canal. Suppose the total is distributed fifty-fifty between Canada and the United States—say \$185,000,000 each. Of her share Canada has already paid out in cash \$128,000,000 for the Welland, and will be credited for a considerable number of millions in the Soulanges section (Beauharnois canal and locks). It is thus seen that the remainder of the capital payment by Canada is roughly about \$40,000,000 to \$50,000,000 of “new” money which, presumably will be spread over eight to ten years. Again, no interest during construction is included.

2. THE HOLGATE-JAMIESON REPORT

My second point is in connection with the Holgate-Jamieson report, which Professor Jackman mentions. It is not without interest to observe that the Montreal Board of Trade did not adopt this report, and indeed in its publication and circularization of the report made it very clear that the Montreal Board of Trade was not prepared to express an opinion either on the conclusions reached or recommendations made. The Board of Trade merely stated that they regarded the report as an important contribution to the general subject.

3. THE DIFFERENCE BETWEEN ESTIMATED AND ACTUAL COSTS

Professor Jackman makes a great deal of the differences that have occurred in the past between the actual and estimated costs of several great public works. In presenting these figures, however, he failed to indicate or elucidate some of the reasons for the large differences between the quoted figures. At the moment I have no means at my disposal of checking the accuracy of Professor Jackman's figures, but for the sake of argument let us assume them to be correct. Professor Jackman fails to point out that in most, if not in all of these cases, far reaching changes in design were made subsequent to the acceptance of the estimate. Indeed, this reason is the outstanding cause which accounts in all parts of the world for discrepancies between estimated and actual costs in the great majority of cases which I have studied. For example Professor Jackman mentions the Chicago Drainage Canal but fails to mention that its operating depth was increased, if my memory serves me, from 18 to 24 feet, which would probably double its flowage capacity. Again trusting to my memory, the Panama specifications were changed by governmental authority after acceptance of estimates so that the locks were altered to accommodate the largest warships in the United States navy. Designed depth was changed from about 35 to about 45 feet, and so on. Professor Jackman did not mention these things.

So far as the St. Lawrence estimates are concerned I would point out three or four factors in favour of the estimates being reasonably authoritative and safe. The first is that the estimates at present before

the country are those reached by the Joint Board of Engineers in 1926, who had at their disposal the estimates made by a whole series of previous boards and commissions either for the same or for quite similar projects. Each of these previously published reports and estimates had received the critical examination of many engineers and other public bodies, and the Joint Board would certainly have access to all this critical data and would presumably profit by them. The second point is that the Joint Board estimates were prepared on 1925 and 1926 price levels which are far higher than present price levels which makes for an obviously increased margin of safety. The third point is that all the estimates of the Joint Board already include for engineering and contingencies a figure of 12½ per cent. A fourth point is that actual construction of certain portions of the waterway has already afforded a direct check on the estimates prepared for these particular sections. For example at Beauharnois, in the Thousand Island Section, and in certain of the upper lakes channels, we now have available contractors' bids and/or actual construction costs. In all cases, I am given to understand, the actual figures are well below the estimates.

In closing the discussion on this point I wish to make it clear that I do not regard engineers as infallible. They are as human as other men. I should like, however, to point out that the record of competent engineers on estimates of works executed as planned would not show on the average a limit of departure of more than perhaps 10 or 15 per cent. It is interesting to compare this divergence or error with the errors committed in the legal and judicial department of our social structure. I have seen figures analyzing cases taken to appeal, and I think that of all cases taken to appeal 30 per cent. of judgments are reversed. The inference is obvious.

4. THE DANGERS OF NAVIGATION IN THE UPPER RIVER

Professor Jackman has dwelt at considerable length on the dangers in navigation that will exist in the upper river to ocean steamers or to the large upper lakers should they by any chance have the courage or temerity to navigate these channels when constructed. I feel, however, that a discussion of these dangers is not a discussion of a principle. It is a discussion of detail. Dangers certainly will exist but they are dangers that can be reduced or avoided from time to time by ordinary engineering construction. Some of these dangers, if not all, have already been provided for. There is nothing inherently impossible in correcting any physical limitations of the channels. In any event the capital figures submitted include allowances for constructing navigation facilities and provisions for safety which in the judgment of the Joint Board of Engineers are adequate for the immediate future. The disinterested decision of the Joint Board has only been reached after listening carefully to all the technical arguments put forward by the lake shipping interests during the progress of the investigation. A *réchauffé* of these old arguments leads to no fruitful result just now.

These predictions of impossibility and difficulty remind me of many of the speeches and writings of those who from 50 to 75 years ago were opposing and ridiculing bitterly the idea of ocean shipping coming to Montreal. They pointed out that Quebec was the natural head of navigation, and that ocean ships could not navigate safely through the shallows of Lake St. Peter. But due to the indomitable courage and determination of men such as the late Hon. John Young the channel was constructed in spite of all opposition, and to-day ocean shipping comes freely to the harbour of Montreal.

5. OCEAN SHIPPING IN THE LAKES

Broadly speaking, Professor Jackman has analyzed the waterway case as if the merit of the project rested on the notion of ocean steamers going above Montreal; but the fact is that no responsible student of the problem, so far as I am aware bases his main argument on this idea. The arguments of many, if not all sober students of the problem who are in favour of the construction of the waterway rest on the notion that the deep waterway will confer on Canada the advantage of having the larger upper lakers move freely to Montreal or other tidewater points. All responsible students have agreed, I think, that there is no likelihood in the immediate future of any liners going west of Montreal; but that a certain number of tramps may go is probable. The best argument on this point is that in spite of the present limitations of 14 foot navigation many Norwegian and other tramps are using the upper lakes constantly. Nor do they have to complete duplicate crews one inland and the other deep sea as has been suggested by Professor Jackman. If therefore tramp shipping in reasonable quantity is already on the lakes on 14 foot draft it is not unreasonable to suppose that with 27 feet of water available some tramp movement will take place. But as I have said before the basic merit of the waterway does not rest on the idea of ocean shipping using the lakes and channels. It rests on the notion of the large and economic upper lakers coming through to Montreal in continuous voyages.

6. SAVINGS IN GRAIN

Professor Jackman has been quoting the published statements of some political and other enthusiastic writers on the waterway to the effect that the savings on grain will amount to from 6 to 10 cents a bushel, and then proceeds to show that this is absurd. I thoroughly agree that such figures are very wide of the mark; they are indeed ridiculous. Professor Jackman failed to mention that responsible students of the problem do not quote such peculiar figures. They are quoting figures of from 2½ to 3½ cents per bushel as the probable saving. In other words, Professor Jackman's criticism of some enthusiastic propagandists partakes of the nature of erecting straw men and then having a pleasant time in knocking them down. He fails to meet the sober arguments of those who, using more conservative figures, find them-

selves forced to the conclusion that the economic balance is favourable to the waterway.

Under this heading of savings on grain Professor Jackman also states categorically that no matter what the saving will be, none of it will enure to the benefit of the Canadian farmer. I am only in partial agreement with this statement. Assuming for the moment that a saving of 3 cents will be effected by the waterway, my own view is that a certain percentage of it would go directly to the European buyer and that the balance will come to Canada in some manner. Some of it will come to the inland shipping companies, some to the brokers and middlemen, and the remaining portion to the farmer, characterized by Professor Jackman as the residual claimant. I agree thoroughly with Professor Jackman that the unorganized farmer is not in as good a position to claim such benefits as I should like to see him. In my judgment it is quite impossible to estimate quantitatively the proportion of benefit that would enure to Europe and Canada respectively, and because of this obvious difficulty I do not propose to suggest any figure. But I think the best interests of the investigation are served by assuming very conservative total savings with the knowledge that of the final actual savings some will undoubtedly go to Europe.

In connection with this whole argument, it is rather interesting to carry it both ways to the points of absurdity. It is argued that an amelioration of transportation costs of grain between Saskatoon and Liverpool is of no benefit whatever to the farmer. In light of this let us suppose that a method of transportation was invented which would move a bushel of grain from Saskatoon to Liverpool for one cent, instead of the present cost of about 35 cents. Would the Canadian farmer not benefit to some extent? To propound the question is in reality to answer it. He certainly would benefit, but it would be difficult if not impossible to estimate his benefit quantitatively. Conversely, suppose it cost \$2.00 a bushel to ship grain from Saskatoon to Liverpool, would not the Canadian farmer be in such a hard position that he could barely ship any grain at all? The implications of these two arguments are, of course, obvious and do not need to be laboured.

It seems to me that the truth of the matter lies in some middle course. Let us restrict ourselves to broad conclusions based on some such reasoning as the following. The buying areas for export grain are western Europe, and Great Britain. These countries buy grain from all over the world, but no one exporting country furnishes more than about 30 per cent. of the total export market. The final price level on any day, fixed either on an open market or by private buying, can be looked upon as the vector resultant of all the economic forces that come into play at such times. The lowered cost of transportation from one of the markets will certainly tend to reduce the selling and purchasing level created day by day. But in view of the fact that the grain does not come solely from the "reduced" source, then in the long run, the amount of decline in the final integrated market price cannot be as large quantitatively as the decreased cost of transportation of

merely one of the exporters. There remains, therefore, an obvious margin of benefit that must enure to Canada. Thus if it be conceded that the reduction of the cost of transportation is of some benefit to Canada the argument is reasonably complete that a 3 cent saving will confer an indefinite but actual amount of benefit to Canada. In this benefit the farmer must share to some extent.

Professor Jackman has pointed out that the centre of gravity of wheat production in the Canadian west is moving westward but it is also true that the centre of gravity of wheat production is still, and in all probability will remain, within the area economically tributary to the Great Lakes-St. Lawrence waterway. It is probably true that in its wheat shipment the province of Alberta will be tributary to the port of Vancouver, but most if not all of the province of Saskatchewan lies within the area tributary to Fort William. Unless the centre of gravity of wheat production moves far into Alberta—an extremely unlikely contingency—the waterway will be of benefit to western Canada.

7. MONTREAL-LIVERPOOL OCEAN RATES

Professor Jackman has mentioned, in connection with his main discussion, the cost of moving grain from Montreal to Liverpool. Probably due to restrictions of time he decided to omit any discussion as to the reason for variation in these ocean grain rates. The basic reason over a long swing of years for the wide variation has been the Russian export of grain. During such times as Russia was exporting grain there was more North American liner space seeking grain for a fill-in cargo than there was grain offering on the North American seaboard. Consequently liner shipping was competing to get the grain and often very low rates obtained on account of the desirability of grain for liner purposes. With the collapse of Russia in 1915 as an exporter of grain approximately 200,000,000 more bushels of grain had to move from the North Atlantic seaboard to Europe than had moved normally before. Under these circumstances more grain was offering than the liners wanted. Grain was now seeking transport. Consequently rates went up and when they reached an approximate level of 8 cents it became profitable for the tramp to come into the picture. Therefore, the ocean rates on grain on the North Atlantic between America and Europe are controlled by two or three basic factors. These are the relation of Russia to the world export markets, the peculiar fact that New York is entirely a liner grain-port and that liners are available in large quantities on this run, and finally the tremendous liner tonnage which is moving between North America and Europe in any event, grain or no grain.

8. THE DEPLETION OF RAIL EARNINGS BY WATER COMPETITION

Professor Jackman has pointed out very properly the economic unsoundness of any policy which would rob the Canadian railways of their traffic and income, caused by now building at national expense an unwanted transportation enterprise. This point, in the view of the gene-

ral public, is a strong argument against the waterway. And it would be a valid argument if the waterway were to compete in any serious manner with the traffic now held by the railways. But the fact is that so far as grain is concerned (and it is the present principal waterway commodity) the railways do not now enjoy the grain traffic in any substantial amount on any run that would be paralleled by the proposed deep waterway. In other words the railways get all the eastbound grain to Fort William in any event and this traffic would develop a slight relative increase. The only rail revenues which would be seriously affected would be those coming from the rail routes from Bay ports to Montreal or to other tidewater termini. Here, there would be some actual loss, but in assessing the amount of the loss it must be remembered that of these Bay port movements a certain proportion is for the flour milling industry in any event. And I see no reason why the waterway would disturb the flour milling traffic and rail revenues. Consequently one portion of the present Bay ports-Montreal movement would not be disturbed by the waterway. In summing up, it may be said that in any event the railways cannot lose traffic which they do not possess, and that they stand to lose some substantial amounts in a certain proportion only of the Bay ports-Montreal (tidewater) movement. But they stand to gain directly and indirectly in many other routes and in several other departments of the economic structure.

9. NAVIGATING LARGE SHIPS THROUGH CANALS

Professor Jackman has quite correctly pointed out the difficulties which large ships may and do have in navigating canals, and stressed the fact that many canals are now obsolete, owing to the slowness of movement, etc. The first argument depends for its weight on the conception of large vessels going through long, continuous canals, and on this point I agree with Professor Jackman. If the St. Lawrence waterway were a long interminable canal the arguments against it would be almost overwhelming; but the facts, as distinct from prejudices, show that the St. Lawrence deep waterway stretches from Montreal westwards a distance of 1,210 or 1,340 miles to the Fort William or Duluth terminus. Of this distance only 63 statute miles lie in canals, 70 miles in somewhat restricted channels where small reductions of speed are necessary, and the balance or 1,077 miles are in open river and Great Lakes—practically oceans—where navigating conditions are completely unrestricted. That is to say, the canals represent but 5.2 per cent. of the length of the waterway if Montreal be regarded as its eastern terminus, and but 2.85 per cent. if the Straits of Belle Isle be regarded as the eastern terminus. The problem then can be envisaged as follows; modern history shows that, omitting canals constituting entrances or cut offs to the great ports, the only profitable ship canals at present in existence are those that connect great bodies of water or oceans, e.g., the Panama or Suez. These are comparatively short canals uniting great expanses of open sea on which profitable commerce exists. The same or similar fundamental conditions surround the St. Lawrence pro-

ject. It is a project to connect with the open Atlantic five great inland oceans contiguous to some of the most prosperous and productive territory in the world; and the necessary canals in this connection embody but 2.85 per cent. or 5 per cent. of the total length of the direct voyage.

10. COMPARISON WITH THE NEW YORK STATE BARGE CANAL

Professor Jackman in his paper made some comparisons between ton mile costs on the New York State Barge Canal and the ton mile earnings of some of the Class I eastern railways. It was a comparison endeavouring to contrast the real costs of water and rail transport. The rail costs appeared to be only 30 per cent. of the water costs. The obvious inference from these figures is that the ton mile rates deduced from the Erie Canal figures would be applicable to the ton mile rates that would obtain with the St. Lawrence deep waterway. But surely Professor Jackman must be aware that the present Erie Barge Canal is a 12 foot ditch running up hill and down dale, through apple orchards, under a multitude of bridges, with sharp limitations of the clearance and of the barge length owing to the bridge structures and the shortness of the lock. The traffic used as a divisor is extremely small. The resulting ton mile charges by such a transportation mechanism with such methods of computation are not comparable and cannot be compared with those developed by the movement of the large upper lake freighters carrying bulk commodities—the cheapest method of transportation mankind has ever invented.

Furthermore, if the general trend of this argument were correct it would mean that it would be cheaper for bulk commodities when once on rails to continue their movement to destination by rail. An interesting sidelight on this is the movement of iron ore from Michigan to Pennsylvania. Here are bulk commodities starting on rail, trans-shipped to water at Lake Erie, moved down by upper lake freighters to Lake Erie ports, again trans-shipped to rail, and thence by rail to their destination. In other words these bulk cargoes of iron ore which have to be initiated on rail, and have to conclude their journey on rail, in spite of these two facts, move by water for the intermediate stage of their journey rather than move by rail. The reason for this water movement is that it is cheaper. The all-rail cannot compete with Great Lakes transportation.

11. THE ALBANY-OSWEGO ROUTE

Professor Jackman has mentioned and made light of the possibility of the Oswego-Albany route competing with Canada. Time does not permit me to develop at any length what I believe to be the basic economic considerations of this Mohawk route, but may I say briefly that I regard it as most serious in its direct and indirect implications. It must not be forgotten that the existence of this low level route, the only low level land pass through the Appalachian Range, has already affected profoundly the political and economic history of this continent, and will do so again unless Canada takes the necessary steps to improve

her entrance to the productive and valuable interior mid-continental population.

12. HARBOUR COSTS

Professor Jackman has quite rightly called attention to the fact that the cost estimates for the completed waterway do not include any provision for the construction of harbours. He is quite right also in pointing out that certain harbours will have to be deepened if full advantage is to be taken ultimately of the 27 foot depth. There is the natural inference from Professor Jackman's remarks that in estimating the capital cost of the whole project the cost of these various harbours should also be set up in order to make a proper or fair picture. This statement seemingly fair and correct is, however, completely wrong economically, unless with the revised capital estimate one submits the revised earnings due to the new harbours and/or their increased depths. In other words these new harbours would presumably make increased earnings over and above those of the present system of 20 to 21 foot navigation. In addition account should be taken of the new traffic created by the harbour developments. But these two points are so difficult if not impossible to evaluate in terms of dollars per year, that it seems simpler to accept as the basic capital the cost of the 27 foot waterway (minus new harbours) calculate the annual charge for this waterway, and then offset against such annual charges conservative earnings and returns based on the existing 20 to 21 foot navigation. This is reasonable because it is obvious that practically all the future traffic on the waterway can be provided for by the existing harbours if the operating ships do not draw more than 20 to 21 feet. In other words proper harbour facilities that are already created for the movement of the large upper lake vessels, and immediate earnings by such vessels are available once the physical limitations to their through movements have been disposed of.

13. POLITICAL ASPECTS

Professor Jackman concluded his paper by entering into a fervent appeal based not on economics but on party politics. While I feel myself untrained to submit any discussion that savours of party politics, I should like to respectfully query the statement: "The United States is holding a club over Ottawa's head and threatening the latter that unless they draw up a treaty . . . that country will go its own way, etc." If these words mean anything they mean that the government at Washington has deliberately given expression to such views, and have communicated the threat officially to the Canadian government. This is a statement, of course, that is impossible for a private citizen like myself to contradict, and doubtless Professor Jackman is very well informed privately. But as a private citizen I may say that I have read all the public documents on the question, and so far as such public documents are concerned I have no knowledge or memory of any such letter or communication having been issued, and I doubt if the speech quoted by Professor Jackman warrants such an inference. The actual existence

of the port of Albany and its strategic relation to the Oswego route, Lake Ontario and the upper lakes are matters that I have already mentioned in this discussion and need not here repeat other than to observe that I regard the situation there as of the utmost gravity. If, however, Professor Jackman wishes to convey the view that the existence of this route is a threat, I am in accord with him, though, I would then feel that his language is far from clear, and might easily be regarded as provocative. It seems to me that the ordinary reader would take wrong meaning from his words.

Nor is it reasonable I believe, to give the impression that the United States has not accepted loyally, the notion or view that the power may not be exported from Canada. A perusal of the correspondence between the two governments makes it quite clear that Canada has committed herself to a policy of no export of power and that the United States has openly accepted this view.

Nor do I follow the underlying reason running through the last portion of Professor Jackman's paper that the Canadian government is necessarily weak, uninformed, credulous, and simple when it comes to discussing waterway matters with an astute, wily, thoroughly informed and perhaps malicious United States government. This strikes me as a doctrine of defeatism. Certainly I believe it to be true that there are as good brains and as careful advisors in Canada as there are in the United States.

The mere fact that a large number of people in the United States do want, or believe that they want, the waterway is no *ipso facto* guarantee that a waterway would be useless or prejudicial to Canada. It is at least conceivable that it might be useful to both countries. I do not venture to make any observations on the need of the United States, because I have not studied the United States case; but after giving some degree of close study to the Canadian aspects of the problem for the past five or six years, I have reached what I believe to be an informed opinion, that the waterway will be a profound benefit to Canada. If, therefore, with a motive of enlightened selfishness in moving toward the completion of the waterway, Canada should find that the waterway would also benefit the United States I believe that the circumstances is a happy eventuality and should be welcomed whole heartedly.

Coming now to part B, that is the more general aspects of Professor Jackman's paper, one is struck with the absence of any discussion of some of the broader and more fundamental economic issues involved in the proposal to build the St. Lawrence waterway. I refer to such questions as the reasons underlying the long continued agitation for its construction, the relation of the Panama canal to the project, relation of the mid-continental industrialization with mass production to the necessity for cheap bulk transport, and so on. One is also struck with the absence of any general financial or economic balance sheet in which on one side are set up the annual costs of the waterway to Canada as a navigation enterprise and on the other side the direct financial benefits.

And finally, there has been no adumbration of the indirect benefits of this Dominion by the construction of the waterway.

One would like to see in any general paper on the waterway some discussion of the relation between rail and water rates, for example, how Winnipeg has moved west from Montreal and east from Vancouver since the construction of the Panama canal, though due to the Panama canal Montreal and Vancouver are closer together than ever before. The effect has been to create in the interior of the continent a transportation and economic handicap which many of those favouring the waterway, believe will be corrected to some extent by its construction.

The absence of a money balance sheet is especially disappointing. Professor Jackman has failed to bring out any figure that would represent the capital charge to Canada of the waterway as a completed navigational unit. Then based on such a capital charge there could be pointed out the expenditures already made by Canada on the Welland Ship Canal (\$128,000,000 approximately), the expenditures partially made by Canada at Beauharnois, and thus reach a figure for the Canadian capital contribution still necessary for Canada to spend in order to complete the whole waterway. With such figures, one could easily approximate the total annual cost in interest, sinking fund, and operating charges. Then with such an annual cost figure in hand one could make a reasoned estimate of Canadian traffic and of the reduction in charges on this traffic. Then with these figures available an informed opinion could be had as to the advisability of the whole construction. And in addition it must not be forgotten that behind these direct benefits there is a whole range of indirect benefits which cannot be evaluated in terms of dollars per year but which nevertheless are available to the country.

Then, too, one fails to find in Professor Jackman's paper any indication that the problem in 1932 is not the same as it was in 1920. In 1932 Canada has already completed the new Welland Ship Canal, and is committed to all the implications of the completion of that large project. She has completed the canal portion of the Beauharnois enterprise and the broad outstanding problem of to-day is, with these constructions and commitments already made, what is the statesmanlike policy toward the balance of the problem?

It must not be forgotten that Canada's political independence is founded on east and west transportation; witness the Canadian railway system. We have committed our national fortunes to such east and west movements. They run athwart the natural or expected flow of commodities on this continent which is obviously north and south, but we have felt that we have something distinctive in our civilization to perpetuate,—our systems of justice, political administration and organization, and so on. To achieve a stability of these institutions we have determined to maintain a national life independent of the republic to the south of us. The experiment thus started long ago and confirmed in 1867 depends for its permanence beyond any question upon the basis

of east and west transportation. The St. Lawrence deep waterway is a proposal to cheapen transportation in this basic east and west direction and the waterway thereby becomes a further guarantee of the success of the experiment initiated in 1867. There is a certain group which supposes that the St. Lawrence waterway spells an entanglement to and beguilement by the citizens of the republic to the south, but the fact of the matter is that, if constructed and used the St. Lawrence waterway becomes a further buttress to Canadian independence.

Summing up, I believe that from the economic point of view the St. Lawrence deep waterway will be of profound benefit to Canada. It will bring about real transportation savings, it will act as an economic regulator on the rail rates, it will stabilize and make more secure Canada's competitive export position, it will reduce the cost of imports, and will confer abundant power on the citizens of the St. Lawrence basin. The waterway project will create in the lower St. Lawrence basin a highly industrialized development. Finally, because it will cheapen basic east and west transportation, the waterway will make a substantial contribution to the attainment and permanent enjoyment of a goal profoundly desired by all Canadians—a national life that will be politically free because economically sound.

Finally, I would like to make clear that in expressing views opposed to some extent to those of Professor Jackman, I am nevertheless able to record my own sense of sincere personal appreciation of the important contribution he has made to the subject. The Canadian Political Science Association is his debtor.

W. A. MACKINTOSH.—I strongly suspect that my chief qualification for discussing this subject is that I live at Kingston, just midway between the gentleman from Toronto who opposes the St. Lawrence deep waterway and the gentleman from Montreal who favours it. It is a satisfactory feature of both speakers that one is left in no doubt as to the position taken by each speaker. It is my assignment, however, to discuss Professor Jackman's vigorous paper.

The point at which I hesitate in dealing with this important project is the point of cost. Here I find myself helpless in the hands of the engineer, or worse in the hands of the enthusiast. The project is really two fold—a power project and a transportation project. The cost is joint. The enthusiast at one turn represents the power as paying for the transportation and at another, the transportation as paying for the power. I have never seen any adequate discussion of the allocation of these joint costs. Discussion, even though favourable, makes it clear that the value of the transportation project is less evident than the value of the power project. The latter could readily be put to the commercial test. If it were not that the Canadian share of the power belongs to the Province of Ontario while the navigation rights are under the control of the Dominion, it would appear prudent that as much cost as the power project could carry, should be apportioned to it, leaving

the transportation project, from which no revenues can be derived, to bear the remainder.

Professor Jackman's paper confirms me in my opinion that the saving in charges for the transportation of wheat are usually overestimated. Indeed, at present even Professor Jackman's figure of three cents a bushel is excessive, since the whole water rate from the head of the Lakes to Montreal is, for the current season, only three cents a bushel. There is, however, one point at which I would take issue with Professor Jackman. Assuming reduction of three cents a bushel in transportation charges, this saving would not accrue to the Liverpool importer or the British consumer. It would do so only if Canada supplied all or nearly all of the British requirements. As long as Great Britain has recourse to Australia or Argentina for any substantial fraction of her supplies, any lowering of transportation costs affecting Canadian wheat alone, will result in an increased price, *certieris paribus*, for the Canadian producer.

The St. Lawrence waterway project is an international project. It is most unfortunate that this should in any way hinder fair discussion of its merits. I have no sympathy with the attitude all too common in this province, which looks suspiciously on any international arrangement with the United States. There are too many people in Ontario who look on the United States, as the country yokel looks on the city "slicker," and too many politicians, who make political capital of that attitude. The St. Lawrence waterway is a project, great in conception; necessarily it is international. If it would have merits as a Canadian project it will have equal merits as an international project.

MINUTES OF THE FOURTH ANNUAL BUSINESS
MEETING OF THE CANADIAN POLITICAL SCIENCE
ASSOCIATION, HELD IN TORONTO, MAY 23, 1932

The annual business meeting of the Canadian Political Science Association was held in the Economics Building, University of Toronto, on May 23, 1932, at 9.00 p.m., with Dr. S. J. McLean in the Chair.

At the morning session of the meeting, it was moved by Prof. V. W. Bladen, seconded and carried, that the President be requested to appoint a nominating committee which should report to the business meeting to be held the same evening. In accordance with the resolution of the Executive Council, the President appointed Prof. J. P. Day of McGill University, Prof. A. B. Balcom of Acadia University, Prof. W. B. Hurd of Brandon College and Prof. W. A. Mackintosh of Queen's University to act with the Secretary as the nominating committee.

At the business meeting the minutes of the previous business meeting held in Ottawa on May 29th, 1931, were taken as read inasmuch as they have been printed at pages 259 and 260 of Volume III of the Proceedings of the Association.

It was moved by Mr. S. A. Cudmore, seconded by Prof. F. A. Knox, and carried that the annual fee of the Association be raised to \$3 in view of the deficiency in the funds of the Association.

It was moved by Mr. S. A. Cudmore, seconded by Prof. A. B. Clark, that the thanks of the Association should be tendered to the retiring President for the courtesy and ability with which he had conducted the affairs of the Association throughout the year. This was unanimously carried.

It was moved by Prof. V. W. Bladen, seconded and unanimously carried, that the thanks of the Association be tendered to Prof. F. A. Knox, retiring Treasurer, for the excellent work which he had done during the past year in increasing the membership of the Association, as a result of which the

financial report showed a vastly improved condition as compared with the preceding year.

The report of the nominating committee was next read by the Secretary and carried unanimously, and the following Officers were declared elected for the Association year 1932-33:

President—E. J. Urwick, University of Toronto, Toronto.

Vice-Presidents—A. B. Clark, University of Manitoba, Winnipeg.

J. W. Dafoe, Winnipeg Free Press, Winnipeg.

S. B. Leacock, McGill University, Montreal.

E. Montpetit, University of Montreal, Montreal.

Secretary—S. A. Cudmore, Dominion Bureau of Statistics, Ottawa.

Treasurer—V. W. Bladen, University of Toronto, Toronto.

Editor of Publications—C. A. Curtis, Queen's University, Kingston.

Elected Members of Executive Council—J. F. Booth, Department of Agriculture, Ottawa.

W. T. Jackman, University of Toronto, Toronto.

T. R. Loudon, University of Toronto, Toronto.

S. R. Noble, Royal Bank, Montreal.

N. McL. Rogers, Queen's University, Kingston.

F. R. Scott, McGill University, Montreal.

W. W. Swanson, University of Saskatchewan, Saskatoon.

Dr. S. J. McLean, as retiring President, and Dr. O. D. Skelton, as President for 1930-31, continue under the Constitution as members of the Executive Council throughout the present Association year. In addition to this, the following members elected in 1931 to serve two years complete the Executive Council of the Association:

F. S. Chalmers, Financial Post, Toronto.

H. A. Innis, University of Toronto, Toronto.

H. Laureys, L'École des Hautes Études Commerciales, Montreal.

B. Leman, Banque Canadienne Nationale, Montreal.

W. R. Maxwell, Dalhousie University, Halifax.

H. Michell, McMaster University, Hamilton.

N. W. Rowell, Toronto General Trusts Corporation, Toronto.

The time and place of the 1933 meeting were left to the discretion of the Executive Council.

On motion the meeting adjourned.

REPORT OF THE SECRETARY OF THE CANADIAN POLITICAL SCIENCE ASSOCIATION FOR THE YEAR ENDED APRIL 30, 1932

In reporting the work of the Association for the past year I am including as a part of the record the minutes of the meetings of the Executive Council.

Minutes of the meeting of the Executive Council of November 7, 1931:

A meeting of the Executive Council of the Canadian Political Science Association was held in the office of the President, Dr. S. J. McLean, Union Station Building, Ottawa, on November 7th, 1931, at 2.00 p.m.

The following members of the Executive Council were present at the meeting: Dr. S. J. McLean, President; Professor F. A. Knox, Treasurer; Professor C. A. Curtis, Editor of Publications; Professors W. A. Mackintosh, H. Laureys, H. A. Innis and J. E. Lattimer; Dr. O. D. Skelton, Past President, and S. A. Cudmore, Secretary.

Professor Knox, the Treasurer, presented a statement showing expenditures incurred in connection with the second and third years of the Association's operations, showing a total of \$635.84 expenditures for 1930 and \$1,279.09 expenditures for 1931. Expenditures for 1932 are calculated at a minimum of \$1,100, while the revenue from the present individual and library members of the Association is about \$700.00. Professor Knox also presented a balance sheet as at October 30, 1931, showing current assets of \$239.58 and current liabilities of \$517.65, being a deficit of \$278.07. Against this deficit are to be reckoned the copies in hand of Volumes I, II and III of the Association's Proceedings, either in bound or sheet form.

It was agreed that the members of the Executive Council should endeavour to induce their friends to become members of the Association in order that by the time of the next meeting, the Association may be on a more satisfactory basis. It was also suggested that the Toronto, Montreal and Winnipeg members of the Executive Council should be asked to constitute committees in their respective cities for the purpose of bringing in desirable members.

It was moved by Professor W. A. Mackintosh and seconded by Dr. O. D. Skelton, that it was the sense of the Executive Council that for the Association year 1932-33 the membership fee should be \$3.00. This was carried unanimously.

It was moved by Dr. W. A. Mackintosh and seconded by Professor J. E. Lattimer and carried that the next meeting be held in Toronto either just before or just after the meeting of the Royal Society which

is being held in Ottawa on May 26th, 27th and 28th, 1932, and that the Canadian Historical Association be approached by the President with a view to arranging if possible for a joint meeting. It was noted that the buildings of the University of Toronto would probably be available for the meeting of the Association.

Regarding the program of the meeting, a great deal of discussion took place and many interesting subjects of papers were suggested. In the end it was decided that there should be six sessions at the meeting, one of which should be devoted to the Presidential Address. In case a joint meeting with the Canadian Historical Association could be arranged it was hoped that both presidential addresses could be given at the same meeting. A second session should be devoted to a round table discussion on various subjects to be arranged. The remaining four sessions were to deal with the following chief topics: political science, public finance and economic functions of the state, transportation, banking. It was agreed that Professor Rogers of Queen's University should be asked to undertake the responsibility for program and papers of the political science session.

It was agreed that Professor Kemp should be asked to be responsible for the program of the session on public finance and economic functions of the state, with the assistance of Mr. F. S. Chalmers of the Financial Post, Toronto.

It was agreed that the President should ask Professor Jackman of the University of Toronto to act as convener of the program of the session on transportation, and Professor W. C. Clark of Queen's University for the banking session.

It was also arranged that Professor W. A. Mackintosh and Professor H. A. Innis should be a committee to arrange the program for the round table discussions to be held at one of the sessions of the meeting.

It was agreed that all those reading papers should be asked to send two copies of the paper to the Secretary by May 1st, one copy to be available for the use of the person assigned to lead the discussion on the paper and the other copy to be turned over, after the meeting, to the Editor of Publications. Papers are to be limited to thirty minutes and the Association is to have priority of publication. It was agreed that the publicity end of the 1931 meeting had not been entirely satisfactorily dealt with and it was suggested some more satisfactory arrangements should be made for publicity for the 1932 meeting.

In response to a letter of Mr. H. Michell of McMaster University, Hamilton, regarding the publication of a Canadian Economic Review, it was agreed that this should be placed on the Agenda for the next business meeting of the Association.

A letter from Dr. J. F. Booth suggesting a combined meeting with the American Association which have their meetings during Christmas week was next read. It was agreed that the Association was yet too weak to consider this for 1932 but that it should be kept in mind for 1933.

A letter from Dr. R. McG. Dawson requested permission to reprint material appearing in Volume III of the Proceedings. It was decided that this was permissible.

In a general discussion on policy in regard to the handling of our publications, it was moved by S. A. Cudmore and seconded by Dr. O. D. Skelton that Professors C. A. Curtis and F. A. Knox be authorized to act as committee re trade discounts on publications of the Association until the next annual meeting. It was the feeling of the meeting that review copies of the publications should be sent to the leading economic journals of the world.

On motion the meeting adjourned.

Minutes of the meeting of the Executive Council of May 22, 1932:

A meeting of the Executive Council of the Canadian Political Science Association was held at the York Club, Toronto, on May 22nd, at 8 p.m.

The following members of the Executive Council were present: Dr. S. J. McLean, President, Prof. E. J. Urwick, Vice-President, Prof. F. A. Knox, Treasurer, Hon. N. W. Rowell, Professors G. E. Jackson, H. Michell, H. A. Innis, W. A. Mackintosh, J. E. Lattimer, Messrs. F. S. Chalmers, D. A. MacGibbon and S. A. Cudmore, Secretary.

In accordance with the resolution of the Executive Council at its meeting on November 7, 1931, it was unanimously agreed that the membership fee for the Association year 1932-33 should be \$3 instead of \$2.

Moved by Hon. N. W. Rowell, seconded by F. S. Chalmers and carried, that the incoming Council be advised that it is the opinion of this Council that an invitation should be extended to the American Economic, American Statistical and other allied Associations to hold their 1933 meetings in Toronto.

After a discussion about the right of publication of the papers presented before the Association, it was moved by Prof. E. J. Urwick, seconded and carried, that the President and Secretary be given authority to decide questions respecting priority of publication.

It was agreed that the work of the Publicity Committee under Prof. C. A. Ashley of the University of Toronto should be approved, and that the President should ask the Committee on publicity to look after the reporting of discussions of the papers presented.

In view of the failure to secure more than one paper on the rather controversial question of the St. Lawrence waterway for the Tuesday evening session, it was felt that this meeting might well be of a private character. Further, it was moved by D. A. MacGibbon, seconded by Prof. H. A. Innis, that the President and Prof. E. J. Urwick should be left to settle the matter of publicity for Prof. W. T. Jackman's paper.

In connection with the election of officers and of seven members of the Executive Council at the meeting, it was agreed that Professors Balcom, Day, Hurd, and Mackintosh should constitute a nominating committee, together with the Secretary, and that the President should be

asked to appoint this nominating committee in time to report at the business meeting on the evening of May 23rd.

It was agreed that Mr. J. M. Macdonell of the National Trust Company should be invited to act as chairman at the Tuesday morning session on currency problems, *vice* the Hon. H. H. Stevens, who was unable to act owing to urgent business at Ottawa arising out of the impending prorogation of Parliament.

A letter was read from Prof. T. R. Loudon of the University of Toronto with regard to the formation of an engineering section of the Canadian Political Science Association in order to provide for the discussion of the economic side of engineering problems. It was the opinion of the Council that Prof. Loudon should be placed on the Executive Council to give him an opportunity of putting his ideas into practice. It was felt that a session on engineering economics might be a feature of the next annual meeting.

Some discussion also took place on the question of life memberships. It was pointed out that a life membership fee of \$50 was already in existence in the constitution but that no life members had as yet been obtained.

The Treasurer's report was then presented, showing a much more favourable condition than existed in the preceding year, the number of individual members as at April 30 being 367 and the number of library members 71. The deficit on the year's operations, which amounted to \$458.77 in the preceding year ended April 30, 1931, was reduced to \$92.11 in the year ended April 30, 1932. The actual deficit at that date was \$197.71, against which there was a considerable stock of Volumes II and III in the hands of the Editor of Publications. The sale of these volumes would leave the Association with a balance in its favour. It was agreed that this favourable showing reflected great credit on the work of the Treasurer during the past winter, and it was moved by Prof. W. A. Mackintosh, seconded by Prof. G. E. Jackson, that the Treasurer's report be adopted with sincere thanks to him for the activity which he has displayed in advancing the affairs of the Association. It was with sincere regret that the Council heard the Treasurer's statement that he would be unable to accept re-election.

On motion the meeting adjourned.

The membership of the Association has been greatly increased during the past year largely through the strenuous efforts of the Treasurer, and the Editor of Publications. There were 367 individual and 71 library members on April 30th last and a considerable number of new members were enrolled at the Toronto meeting, bringing the total membership close to the 500 mark, though there may be some losses as the result of the necessary increase in membership fees.

Those responsible for the arrangement of the programmes of the various sessions of the Toronto meeting took a great deal of pains in carrying out their tasks, with the result that the papers and discussions at the meeting were of a very high character. The publicity committee under Professor Ashley of the University of Toronto did excellent work in circulating programmes and résumés of the papers, which were extensively reported in the financial and daily press. The new Economics Building of the University of Toronto, in its central situation, proved admirably adapted for the carrying on of the meetings, and the staff in Political Science of the University of Toronto were most attentive hosts. The thanks of the Association is also due to the authorities of Trinity College for throwing open their residence for the accommodation of outside members and to the University of Toronto Faculty Union for placing its dining room and other accommodation at the disposal of the members.

Respectfully submitted,

S. A. CUDMORE,
Secretary.

REPORT OF THE TREASURER OF THE CANADIAN POLITICAL SCIENCE ASSOCIATION FOR THE YEAR ENDED APRIL 30, 1932

A statement of Income and Expenditures for the year ended April 30, 1932, is herewith submitted.

Statement of Income and Expenditures for the year ended
April 30, 1932.

Income

Fees and sales of publications.....	\$1,159.85			
Less bank exchange	21.72	\$1,138.13		
Bank interest		8.07	\$1,146.20	
Less prepaid fees			33.00	<u>\$1,113.20</u>

Expenditures

Expenses of publication and sales				
Printing and binding 800 copies				
(500 bound)	\$ 853.20			
Addressing, mailing and postage	86.69			
Offprints and postage	72.28	\$1,012.17		
Expenses of annual meeting				
Chateau Laurier rental	\$ 20.00			
Printing of programmes	33.33			
Speakers' expense accounts	67.92			
Other expenses	4.89	\$ 126.14		
General expenses				
Printing of stationery	\$ 12.48			
Treasurer's expenses	52.52	\$ 65.00		
				<u>\$1,203.31</u>

Summary

Total Expenditures	\$1,203.31		
Total Income	1,113.20		
Deficit on the year		\$ 90.11	
Deficit on the year 1930-31		105.60	
Total deficit at April 30, 1932			\$ 195.71*

* This deficit is constituted as follows:

Bills payable	\$ 212.07		
Less cash on hand	\$ 49.36		
Less prepaid fees	33.00	16.36	<u>\$ 195.71</u>

F. A. KNOX,
Treasurer.

CONSTITUTION OF THE CANADIAN POLITICAL SCIENCE ASSOCIATION

ARTICLE I—NAME

This Association shall be known as the Canadian Political Science Association.

ARTICLE II—OBJECT

The encouragement of the investigation and study of Political, Economic and Social problems. The Association as such will not assume a partisan position upon any question of practical politics nor commit its members to any position thereupon.

ARTICLE III—MEMBERSHIP

Any person nominated by two members and accepted by the Executive Council may become a member of this Association.

There shall be an annual membership of three dollars.

By a single payment of fifty dollars any person may become a life member, exempt from annual dues.

Each member will be entitled to receive a copy of all the publications of the Association issued during his or her membership.

ARTICLE IV—OFFICERS

The officers of this Association shall consist of a President, four Vice-Presidents, a Secretary, a Treasurer, and an Editor of Publications, all of whom shall be elected annually, and of an Executive Council, consisting ex-officio of the officers above mentioned and of fourteen elected members, whose terms of office shall be two years, except that of those selected at the first election seven shall serve but for one year. The retiring president shall be a member of the Executive Council for two years from the date of his retirement.

All officers shall be nominated by a Nomination Committee composed of five members appointed by the Executive Council, except that the only officers appointed to act until the holding of the first annual meeting shall be the President, Secretary and Treasurer, and the officers for the first year following the first annual meeting shall be nominated by a Committee of three to be appointed by the Chairman of the meeting at which the Constitution is adopted.

All officers shall be elected by a majority vote of the members of the Association present at the meeting at which the elections are held.

ARTICLE V—DUTIES OF OFFICERS

The President of the Association shall preside at all meetings of the Association and of the Executive Council, and shall perform such other duties as the Executive Council may assign to him. In his absence his duties shall devolve successively upon the Vice-Presidents in the order of their election and upon the Secretary, Treasurer, and Editor.

The Secretary shall keep the records of the Association, and the Treasurer receive and have the custody of the funds of the Association, subject to the rules of the Executive Council, and perform such other duties as the Executive Council may assign to them.

The Executive Council shall have charge of the general interests of the Association, shall call regular and special meetings of the Association, appropriate money, appoint Committees and their chairmen, with appropriate powers, and in general possess the governing power in the Association except as otherwise specifically provided in this Constitution.

The Executive Council shall have the power to fill vacancies in its membership occasioned by death, resignation, or failure to elect, such appointees to hold office until the next annual election of officers. Five members shall constitute a quorum of the Executive Council, and a majority vote of those in attendance shall control its decisions. Ten members shall constitute a quorum of the Association, and a majority vote of those members in attendance shall control its decisions.

ARTICLE VI—RESOLUTIONS

Any proposed resolution to which objection is made by any members shall be referred to the Executive Council for its consideration before submission to the vote of the Association.

ARTICLE VII—AMENDMENTS

Amendments to this Constitution shall be proposed by the Executive Council and adopted by a majority vote of the members present at any regular or special meeting of the Association, except that at the first general meeting amendments may be proposed by any member present.

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